

June 2004

TANF AND CHILD CARE PROGRAMS

HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-04-723](#), a report to the Chairman, Committee on Finance, U.S. Senate, and Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Minimizing improper payments is important given the dollar magnitude of the Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) programs—about \$34 billion in federal and state funds expended annually. These block grants support millions of low-income families with cash assistance, child care, and other services aimed at reducing their dependence on the government. At the federal level, the Department of Health and Human Services (HHS) oversees TANF and CCDF. Within states, many public and private entities administer these programs and share responsibility for financial integrity. GAO looked at (1) what selected states have done to manage improper payments in TANF and CCDF and (2) what HHS has done to assess risk and assist states in managing improper payments in these programs. To address these questions, GAO judgmentally selected states that varied in geographic location and program size. GAO used a survey to collect consistent information from 11 states and visited 5 states.

What GAO Recommends

GAO recommends that HHS do more to gather information on state internal control systems and to partner with states to address improper payments. In response, HHS said that its current plans are adequate, given the legislative restrictions on its ability to regulate state TANF programs.

www.gao.gov/cgi-bin/getrpt?GAO-04-723.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calborn at (202) 512-9508 or calbornl@gao.gov.

TANF AND CHILD CARE PROGRAMS

HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments

What GAO Found

The 16 states in GAO's review reported using various strategies and tools to manage improper payments, but their efforts were uneven. Almost all the states in the review reported that they performed some activities to assess whether their programs were at risk of improper payments. These activities, however, did not always cover all payments that could be at risk, focusing, for instance, on cash welfare payments but not on payments for services, which were more than half of all TANF payments in certain states. As a result, the assessments do not provide a comprehensive picture of the level of risk in these state programs, which would be useful to HHS as it takes steps to address requirements under the Improper Payments Act. States also reported using a variety of prevention and detection tools to protect against improper payments, but states reported fewer tools in place for CCDF than for TANF, particularly in the area of data sharing to verify eligibility. Although the states in GAO's review recognized the importance of addressing improper payments, they cited competing demands for staff attention and resource limitations that constrained their efforts. While addressing improper payments does involve costs, comprehensively assessing risks can help focus prevention and detection efforts on areas at greatest risk.

HHS reported using information from its monitoring activities, including single audits and state financial expenditure reporting to determine if the TANF and CCDF programs are at risk of improper payments. We found however, that these activities do not capture information about the various strategies and tools that states have in place for managing improper payments, such as those we observed in our review. In the absence of such information, HHS cannot determine if the TANF and CCDF programs are susceptible to significant improper payments, as required under the Improper Payments Act. HHS officials acknowledged that they needed more information to be in a position to carry out their responsibilities under the act and therefore recently initiated several projects to gain a better understanding of state control activities. However, HHS's projects do not provide mechanisms to gather information on a recurring basis. The absence of such mechanisms hinders HHS's ability to adequately assess the risk of improper payments and assist states in managing improper payments in these multibillion dollar programs on an ongoing basis. Given the statutory framework of the TANF program, GAO recognizes that HHS may determine that it needs legislative action to direct states to provide the information it needs to take this approach.

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families With Dependent Children
APHSA	American Public Human Services Association
CCDF	Child Care and Development Fund
DCI	Data Collection Instrument
HHS	U.S. Department of Health and Human Services
IEVS	Income and Eligibility Verification System
NCCIC	National Child Care Information Center
NCSHS	National Council of Human Services Administrators
OFA	Office of Family Assistance
PARIS	Public Assistance Reporting Information System
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
SSI	Supplemental Security Insurance Benefits
SSN	Social Security Number
TANF	Temporary Assistance for Needy Families
UCOWF	United Council on Welfare Fraud

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United States General Accounting Office
Washington, D.C. 20548

June 18, 2004

The Honorable Charles Grassley
Chairman
Committee on Finance
United States Senate

The Honorable Wally Herger
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Both the federal government and states have a strong financial interest in minimizing improper payments in the Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) programs. Through these two block grant programs, states receive a fixed amount of federal funds each year to design and operate their own programs for assisting families with children. For fiscal year 2002, federal and state TANF and CCDF expenditures totaled about \$34 billion, most of it federal funds. States use these funds to design and implement their own programs—within federal guidelines—to support millions of predominantly low income families with cash assistance, employment, child care, and other services aimed at reducing their dependence on the government and promoting employment. At the federal level, the Department of Health and Human Services (HHS) oversees states' TANF and CCDF programs. Within states, numerous public and private sector entities help administer these programs and share responsibility for protecting the financial integrity of TANF and CCDF programs.

Improper payments in TANF and CCDF can include those made to individuals who are not eligible, as well as payments made to providers for services that are not covered by program rules or services that were billed and paid for but never actually provided. Improper payments can also result from inadvertent errors—due in part to clerical errors or a misunderstanding of program rules—as well as from fraud—an intentional act to deceive for gain.

Because improper payments in government programs are a long-standing, widespread, and significant problem, Congress enacted the Improper Payments Information Act of 2002 (the Improper Payments Act).¹ The act requires federal managers to review all agency programs and activities; identify those that may be susceptible to significant improper payments; and take actions to mitigate the risks identified, including actions to estimate the amount of improper payments. Like other federal agencies, HHS must comply with the Improper Payments Act for all of its programs including TANF and CCDF.

Assessing the risks of improper payments in TANF and CCDF is particularly important given changes initiated by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).² This statute led to states broadening the range and number of services and service providers involved in program administration, heightening the importance of understanding what steps the states and the federal government have taken to address improper payments in these programs. In light of the financial resources at stake and the importance of TANF and CCDF programs to millions of American families, you asked us to determine (1) what selected states have done to manage improper payments in the TANF and CCDF programs and (2) what HHS has done to assess risk and assist states in managing improper payments in these programs.

To guide our work, we used the *Standards for Internal Control in the Federal Government* and *The Executive Guide on Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations* as a basis to obtain information about each state's internal control structure—control environment, risk assessment procedures, control activities, information and communications, and monitoring efforts for the TANF and CCDF programs.³

¹Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

²Pub. L. No. 104-193, 110 Stat. 2105 (Aug. 21, 1996).

³Internal controls are an integral component of an organization's management that provides reasonable assurance that the organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. For more information on internal controls see U.S. General Accounting Office, *Strategies to Manage Improper Payments*, [GAO-02-69G](#) (Washington, D.C.: October 2001), and *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

To determine what selected states have done to manage improper payments in these programs, we visited 5 states and surveyed 11 other states.⁴ We chose these states on the basis of geographic location, level of program expenditures, and type of program administration. These states' TANF and CCDF expenditures totaled almost 60 percent of annual national expenditures for these two programs.⁵ In our five site visits, we gathered information on steps taken to identify and address improper payments, including interviewing TANF and CCDF program officials, fraud officials, and state auditors and reviewing audit reports and other relevant studies. In addition, we observed and spoke with program officials in local TANF and CCDF offices. We surveyed the other 11 states to obtain similar information from TANF and CCDF program officials. In addition, we spoke with representatives of national professional associations to discuss state program integrity issues and their views on efforts to measure improper payments.

To determine what HHS has done to assess risk and assist states in managing improper payments in the TANF and CCDF programs, we identified and reviewed guidance and policies that described HHS's oversight activities; observed key oversight activities at an HHS regional office; reviewed documents, plans, and strategies for identifying improper payments; and interviewed HHS finance and program officials. We also reviewed results of audits conducted under Office of Management and Budget (OMB) Circular No. A-133 and the Single Audit Act.⁶ For additional details of our scope and methodology, see appendix I. We provided a draft of this report to HHS and to the American Public Human Services Association (APHSA), the professional organization of state welfare officials; HHS's comments are included in an appendix and technical comments from HHS and APHSA were incorporated as appropriate. Our

⁴We visited Georgia, Illinois, Texas, Virginia, and Washington and sent surveys to California, Colorado, Florida, Idaho, Kansas, Maryland, Michigan, New Mexico, New York, Ohio, and Pennsylvania.

⁵The 16 states represented 69 percent of TANF expenditures and about 57 percent of CCDF expenditures nationwide for fiscal year 2002, the most recent year for which data were available. Due to state reporting time frames and time required for HHS's review of state-reported data, fiscal year 2003 data are not yet available.

⁶31 U.S.C. §§ 7501-7507. Under the act and implementing guidance, independent auditors audit federal awards to state and local governments and nonprofit organizations to assess compliance with federal financial requirements, including those for TANF and CCDF. Organizations are required to have single audits if they expend at least \$300,000 in federal funds for fiscal years before December 31, 2003 and \$500,000 for years after.

work was conducted from April 2003 through May 2004 in accordance with generally accepted government auditing standards.

Results in Brief

The states in our review reported having various strategies and tools in place for managing improper payments although these efforts were uneven. With the flexibility provided under TANF and CCDF, states generally retain responsibility for determining the types and extent of internal controls to put in place, with few federal regulations and limited guidance in this area. Of the 16 states, almost all reported that they have performed some activities to assess the extent to which their programs were at risk of improper payments, including reviewing samples of cases, conducting fraud investigations, and measuring the amount of improper payments in their programs. These assessment activities, however, often did not cover all payments that could be at risk. For example, some state TANF programs' risk assessments focused on cash welfare payments but did not cover other TANF payments for services, even though such payments accounted for more than half of all TANF payments. As a result, while these assessments provide useful information, they do not provide a comprehensive picture of the level of risks in these states' programs, which would be useful to HHS as it takes steps to address requirements under the Improper Payments Act. The 16 states also reported using a variety of prevention and detection tools to protect against improper payments, although states reported fewer tools in place for CCDF than for TANF, particularly in the area of data sharing to verify eligibility. While the states we reviewed recognized the importance of addressing improper payments, they cited competing demands for attention and resource limitations that constrained their efforts. Although addressing improper payments does involve costs, comprehensively assessing risks can help focus prevention and detection efforts on areas at greatest risk. This in turn can help to minimize improper payments and maximize resources that can be directed to families in need of program services. The unevenness of the risk assessments and other control activities in place may mean there are missed opportunities for states to better prevent and detect improper payments.

HHS reported having monitoring activities in place, such as single audits and state financial expenditure reporting, that they rely on to determine if the TANF and CCDF programs are at risk of improper payments. However, we found that these monitoring activities do not capture information about the various strategies and tools that states have in place for managing improper payments, such as those we observed in our review. Under the

Improper Payments Act, HHS is required to determine if the TANF and CCDF programs are susceptible to significant improper payments and annually report to Congress on its determination. To do so, HHS needs information on states' internal control systems to determine the extent to which they are sufficient to protect these programs from significant improper payments. HHS has attempted to assess the risk of improper payments in these programs using information from its monitoring activities, but because this information is limited, the true risk of improper payments in these programs has yet to be determined. Recognizing these limitations, HHS recently initiated several projects to gain a better understanding of state control activities. HHS has also initiated several projects to provide additional assistance to states in managing improper payments. Many states we surveyed reported not having received assistance from HHS specifically related to managing improper payments and several reported that they would like assistance in identifying effective practices in this area. The projects that HHS has initiated should help develop a baseline of information on the various controls that states have in place for managing improper payments and thus improve HHS's ability to determine if the TANF and CCDF programs are susceptible to significant improper payments. However, HHS's projects do not provide mechanisms to gather information from states on a recurring basis. The absence of such mechanisms hinders HHS's ability to adequately assess the risk of improper payments and assist states in managing improper payments in these multibillion dollar programs on an ongoing basis.

To address these issues, this report makes recommendations to HHS to develop mechanisms for gathering more information on state internal control systems and to partner with states to address improper payments. Given the statutory framework of the TANF program, we recognize that HHS may determine it needs legislative action to direct states to provide the information it needs to implement these recommendations. In commenting on a draft of our report, HHS provided clarification and expanded views on several issues. In particular, HHS commented that its current plan for acquiring additional information and assessing risk is adequate in the statutory context of the TANF program. While its efforts to gather information are important, they must be expanded if they are to provide the detail HHS needs on a recurring basis to ensure it has the relevant information to assess risk. HHS also commented that we had not addressed its recent initiatives with the states. We disagree. Our draft clearly depicts the initiatives planned and underway as described to us by HHS officials and in documents we reviewed during our fieldwork. HHS

also provided us with technical comments, which we have incorporated as appropriate.

Background

The TANF and CCDF programs are two of the nation's key federal programs for assisting needy families with children and are an important component of states' social services networks. These two programs each consist of more than 50 distinct state-level programs—one for each state, the District of Columbia, four territories, and numerous tribal entities. Annually, the federal government makes available to each state a portion of the (1) \$16.5 billion TANF block grant that was established by PRWORA and (2) \$4.8 billion from CCDF for child care subsidies and other related activities. Within HHS, the Administration for Children and Families (ACF) oversees states' TANF and CCDF programs.

Changes under PRWORA— TANF

Congress created TANF in 1996 to replace the decades-old Aid to Families With Dependent Children (AFDC) program that entitled eligible needy families to monthly cash assistance payments. PRWORA made sweeping changes to federal welfare policy, including ending individuals' entitlement to aid, imposing time limits on the receipt of aid, and imposing work requirements on most adults receiving aid. This federal framework gives states the flexibility to design their own programs; define who will be eligible; establish what benefits and services will be available; and develop their own strategies for achieving program goals, including how to help recipients move into the workforce.

PRWORA provides states substantial authority to use TANF funds in any way that is reasonably calculated to meet the goals of the program. As specified by PRWORA, TANF's goals include ending the dependence of needy families on government benefits by promoting job preparation, work, and marriage; preventing and reducing the incidence of nonmarital pregnancies; and encouraging two-parent families. These broad goals represent a significantly broader scope than AFDC. PRWORA also expanded the scope of services that could potentially be contracted out, such as determining eligibility for TANF, which had traditionally been done by government employees.

In addition to these programmatic changes, PRWORA dramatically changed the fiscal structure of the program and shifted significant fiscal responsibility for the program to states.⁷ Each year, the federal government makes a fixed amount of TANF funds available to each state, and a state may reserve some of these funds for use in the future. This represents a significant departure from past policy, under which the amount of federal funds received was linked to the size of each state's welfare caseload. To receive their federal TANF funds, states must spend a specified amount of their own funds each year, referred to as state maintenance of effort.

Along with granting states significant flexibility, PRWORA redefined HHS's role in administration of the nation's welfare system, limiting its regulatory and enforcement authority and reducing its staff level for administering TANF. Specifically, the law states: "No officer or employee of the Federal Government may regulate the conduct of States under this part or enforce any provision of this part, except to the extent expressly provided in this part."⁸ The law also eliminated the quality control system that HHS used to measure payment accuracy of monthly welfare payments under AFDC. Under that system, states were required to statistically select a sample of cash assistance cases and determine the level of erroneous (improper) payments; if a state's improper payment rate exceeded the targeted error rate, it faced a financial penalty.

HHS states in the preamble to TANF regulations that PRWORA reflects the principle that the federal government should focus less attention on eligibility determinations and place more emphasis on program results.⁹ To that end, PRWORA gave HHS new responsibilities for tracking state performance, including a set of financial penalties for states that fail to comply with program requirements and a bonus program for states that perform well in meeting certain program goals. Several of these penalties reflect new expectations for states to assist recipients in making the transition to employment. For example, states face financial penalties if

⁷ See U.S. General Accounting Office, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, [GAO-01-838](#) (Washington, D.C.: Aug. 24, 2001).

⁸ 42 U.S.C. § 617. For more information on HHS's changed responsibilities under PRWORA, see U.S. General Accounting Office, *Welfare Reform: HHS' Progress in Implementing Its Responsibilities*, [GAO/HEHS-98-44](#) (Washington, D.C.: Feb. 2, 1998).

⁹ 64 Fed. Reg. 17720, 17722 (Apr. 12, 1999).

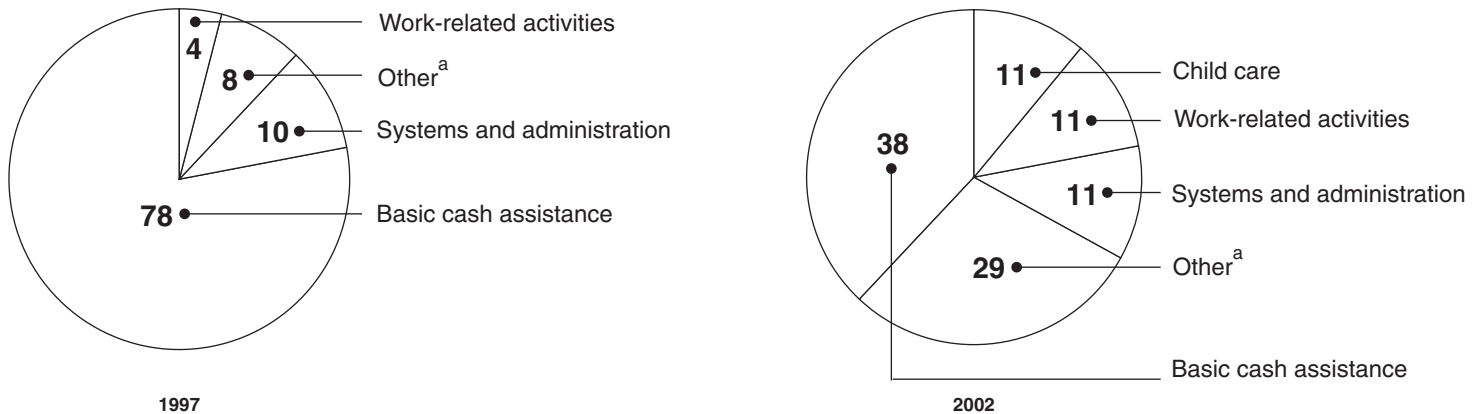
they do not place a minimum specified percentage of adult TANF recipients in work or work-related activities each year and if they provide federal TANF funds to families who have reached the TANF time limits on receipt of aid—60 months over a lifetime. The bonus program was to reward states for high performance toward achieving program goals, such as moving welfare recipients into jobs and reducing out-of-wedlock births.

At the same time, Congress, through PRWORA, emphasized the importance of sound fiscal management for state TANF programs. One part of the new penalty system focused on penalties for states that use funds in violation of PRWORA, as identified through audits conducted under the Single Audit Act. In addition, the law stated that states are to include in the TANF plans that they file with HHS a certification that procedures are in place to combat fraud and abuse, although the law does not require the states to describe these procedures. Moreover, states are required to continue participating in the Income and Eligibility Verification System (IEVS) that provides information from various sources to help verify eligibility information.

As state TANF programs have evolved since implementation, the nation's welfare system now looks quite different than it did under AFDC, posing some challenges for defining and measuring improper payments. As our previous work has shown,¹⁰ welfare agencies now operate more like job centers, taking steps to move recipients into work and providing aid to help families avoid welfare. States now spend most TANF funds on a broad array of services for families rather than on monthly cash assistance, as shown in figure 1. These services include employment services, case management services, support services such as child care and transportation, and pregnancy prevention among others. In addition, states offer various services to other low-income families not receiving welfare, including child care and employment and training services.

¹⁰For more information on GAO's work on welfare agencies, see U.S. General Accounting Office, *Welfare Reform: Improving State Automated Systems Requires Coordinated Federal Effort*, [GAO/HEHS-00-48](#) (Washington D.C.: Apr. 27, 2000).

Figure 1: Expenditures of TANF Funds in Fiscal Years 1997 and 2002 (in percentages)



Sources: HHS and Congressional Research Service.

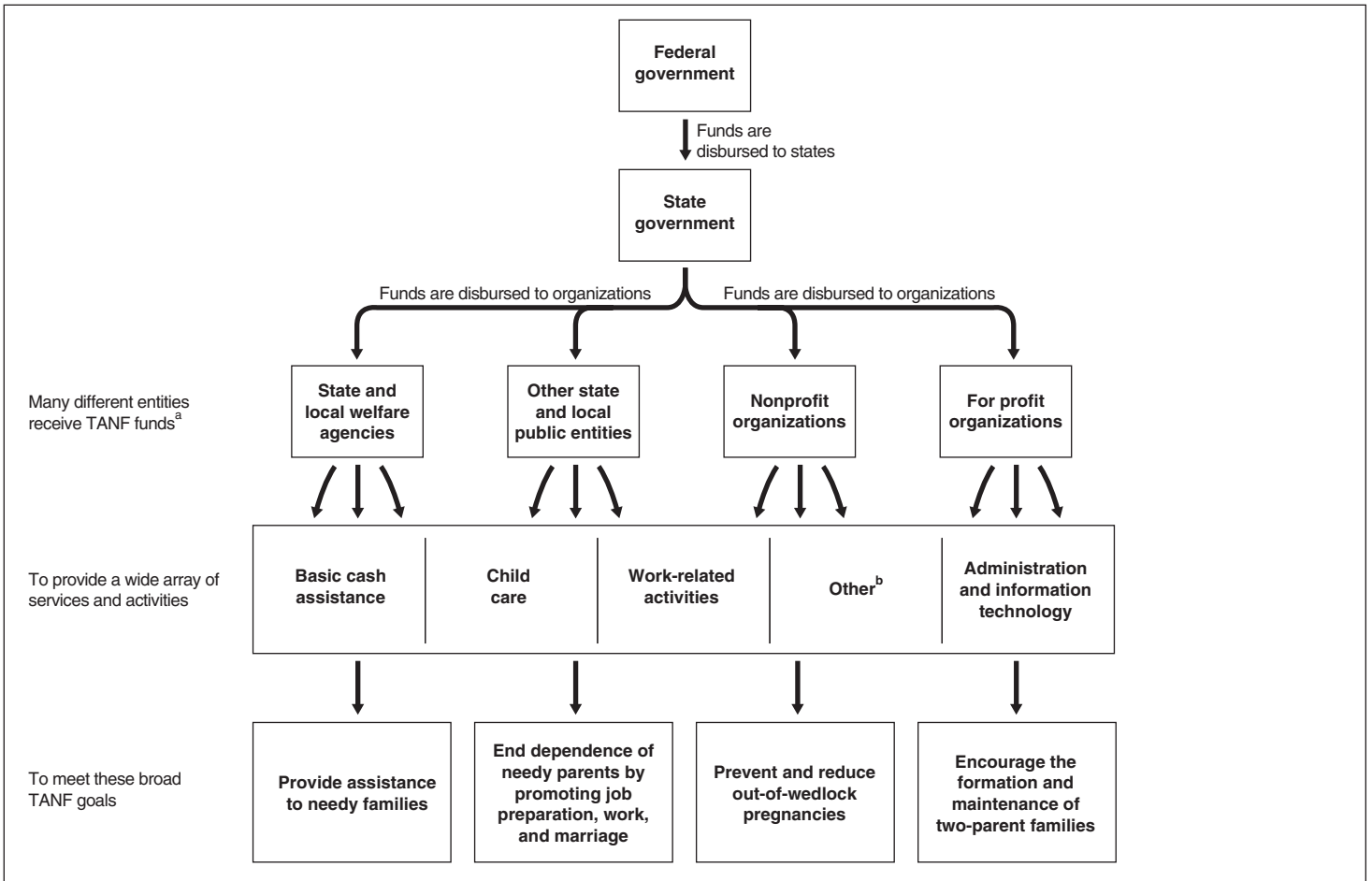
Note: HHS data from TANF Annual Report for fiscal year 2002.

^aThis category includes spending for a variety of services, such as transportation, pregnancy prevention, and promoting family stability and child welfare.

In addition to the broad range of services provided by TANF programs, more entities receive and administer TANF program funds than before, posing additional challenges for states in managing improper payments. In many states, county or local governments receive TANF funds and are the key TANF administrative agencies, sometimes establishing their own policies and programs. States may also distribute TANF funds to several different state agencies to provide services. States and localities also may contract with a multitude of nonprofit and for-profit organizations. In our 2002 report on TANF contracting, our survey to states identified more than 5,000 TANF contracts with nongovernmental organizations at the state level and at least 1,500 contracts at the local level.¹¹ We also found that in 2001, about a quarter of states contracted out 20 percent or more of TANF funds expended for services in fiscal year 2000, ranging up to 74 percent. Figure 2 shows the broad range of services for which TANF payments are made and the entities involved in the TANF payment processes.

¹¹The survey instrument used in this report did not cover all counties in the states examined; therefore, the total number of TANF-funded contracts may be understated. For more information on TANF contracting, see U.S. General Accounting Office, *Welfare Reform: Federal Oversight of State and Local Contracting Can Be Strengthened*, GAO-02-661 (Washington, D.C.: June 11, 2002).

Figure 2: Broad Array of Services and Providers Involved in TANF Payment Processes



Source: GAO.

^a States, and in some cases localities, also contribute funds.

^b This category includes spending for a variety of services, such as transportation, pregnancy prevention, and promoting family stability and child welfare.

Changes under PRWORA— CCDF

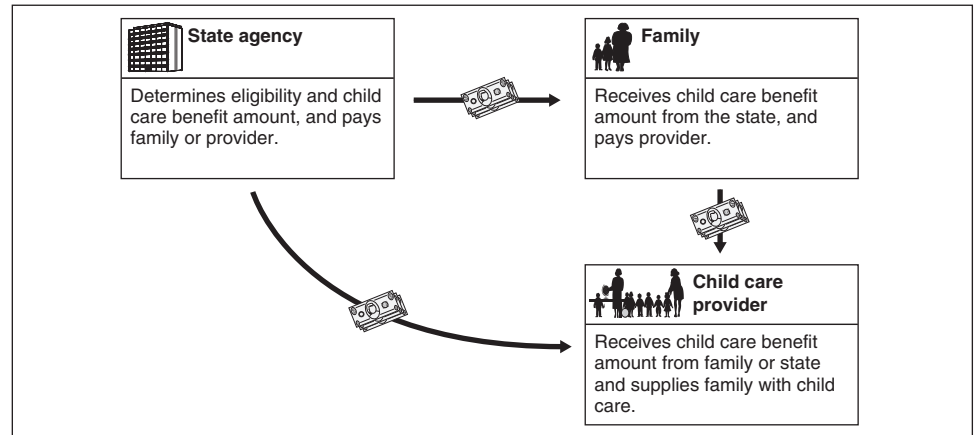
PRWORA also combined several existing child care programs into one program designed to provide states with more flexible funding for subsidizing the child care needs of low-income families who are working or preparing for work. CCDF provides states funds to subsidize child care assistance for families with incomes up to 85 percent of state median income who are working or in education or training. Under CCDF rules, eligible participants are to be allowed parental choice of child care providers, including center-based, home-based, or relative care. In addition, families are required to contribute to the cost of care, in the form of a copayment, unless states exempt families below the poverty level from this requirement. CCDF rules also provide some guidance on establishing reimbursement rates for child care providers and requires that a specified portion of funds be set aside for activities designed to enhance child care quality.¹²

Within this framework, states establish their own income eligibility criteria and determine how the program will be administered. Like TANF, CCDF is administered through multiple agencies, including county and local governments and nonprofit and for-profit organizations. This decentralized system can create challenges for determining what constitutes an improper payment. Figure 3 illustrates the steps often involved in making child care payments.¹³ In recent years, federal and state CCDF expenditures have increased more than 100 percent—from \$4.0 billion in 1997 to \$8.6 billion in 2002, the most recent year for which data are available.

¹²For Regulations on CCDF, see 45 C.F.R. Pt. 98 (2004).

¹³Under CCDF regulations, state or local CCDF agencies may provide payments directly to child care providers or to parents. Payments to parents may be in the form of a child care certificate (a check or other disbursement) that may only be used as payment or deposit for child care services.

Figure 3: Child Care Payment Process

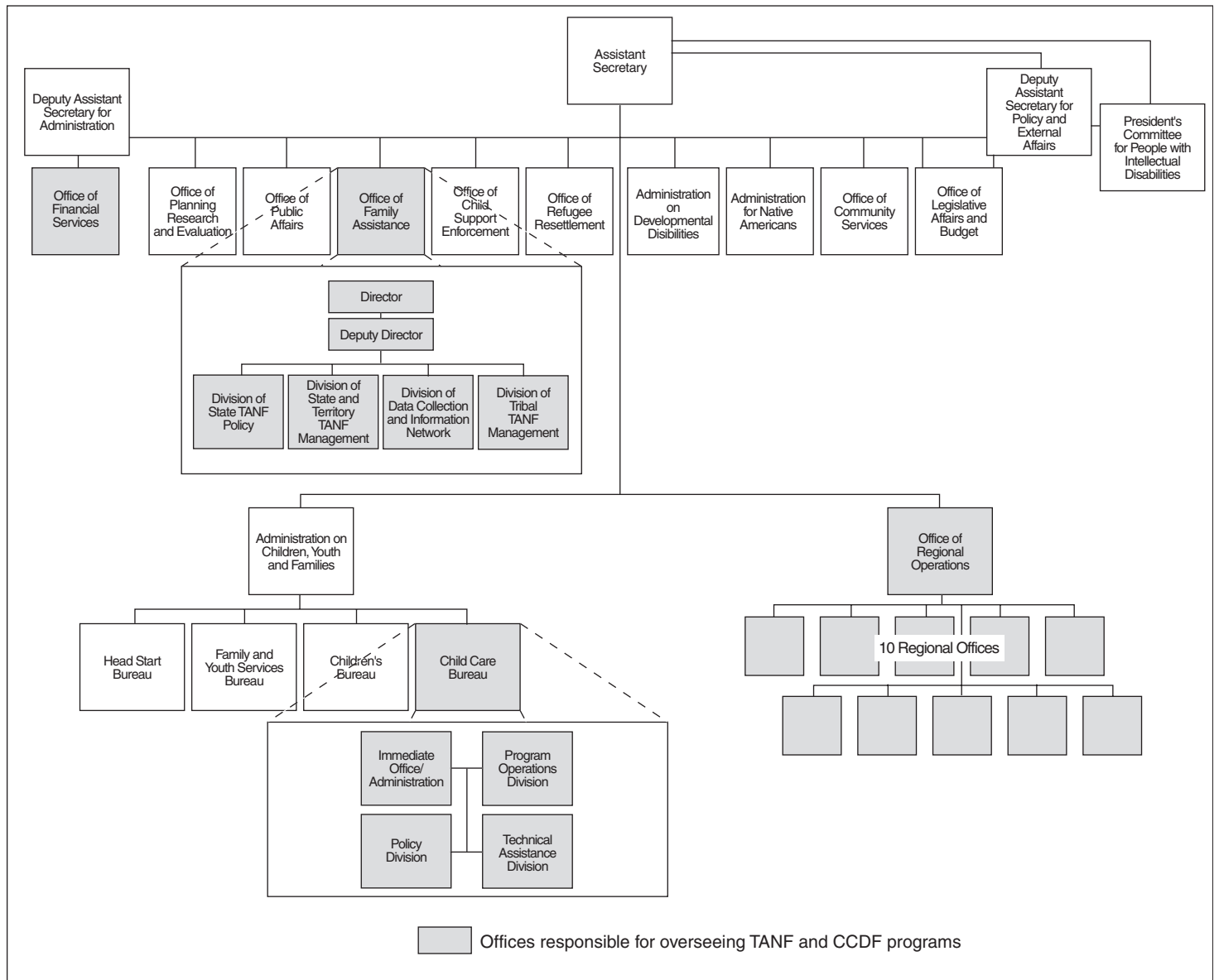


Source: GAO.

HHS's Administrative Structure and Oversight

At the federal level, ACF's Office of Family Assistance (OFA) is responsible for overseeing TANF, and the Child Care Bureau is responsible for overseeing CCDF. Staff in the 10 ACF regional offices and the Office of Financial Services also assist in overseeing aspects of state TANF and CCDF programs. Figure 4 shows ACF's organizational structure.

Figure 4: ACF's Organizational Structure



Source: GAO.

OFA is responsible for overseeing TANF and coordinating HHS efforts to assist states in managing improper payments in the TANF program. Specifically, the office is responsible for (1) developing and implementing strategies to assist grantees in implementing and designing programs to

meet TANF purposes; (2) ensuring compliance with federal laws and regulations; (3) implementing national policy and developing regulations to implement new laws; (4) developing regulations to implement data collection requirements; (5) implementing and maintaining systems for the collection and analysis of data, including participation rate information, recipient characteristics, financial and administrative data, state expenditures on families, work activities of noncustodial parents, transitional services, and data used in the assessment of state performance; and (6) identifying best practices and sharing information through conferences, publications, and other means.

The Child Care Bureau is responsible for overseeing CCDF programs and coordinating HHS efforts to assist states in managing improper payments in the CCDF program. The Bureau's responsibilities include (1) tracking grantee program implementation by collecting and analyzing information that states are required to report through CCDF plans, financial expenditure reports, and administrative data reports; (2) providing technical assistance to grantees concerning CCDF through the Child Care Technical Assistance Network where the Bureau sponsors national and regional conferences and meetings and support the development of Technical Assistance materials and websites; (3) developing program policy guidance to grantees on the administration of CCDF, including questions related to what expenditures are allowable under the program; and (4) supporting research to disseminate findings that document emerging trends in the child care field.

OFA and the Child Care Bureau share fiscal oversight responsibility with the 10 regional offices that are responsible for reviewing financial expenditure reports that states are required to submit as well as assisting in other program responsibilities. The Office of Financial Services is the HHS-designated lead unit for coordinating reporting on the agency's efforts to manage improper payments in the TANF and CCDF programs.

Improper Payments Act

In November 2002, Congress passed the Improper Payments Act. The act requires the head of each agency to annually review all programs and activities that the agency administers and identify all such programs and activities that may be susceptible to significant improper payments. For each program and activity identified, the agency is required to estimate the annual amount of improper payments and submit those estimates to Congress before March 31 of the following applicable year. The act further requires that for any agency program or activity with estimated improper payments exceeding \$10 million and 2.5 percent of program payments, the head of the agency shall provide a report on the actions the agency is taking to reduce those payments.¹⁴

The Improper Payments Act also required the Director of OMB to prescribe guidance to implement its requirements. OMB issued guidance on May 21, 2003, that provides instructions for estimating improper payment rates, and requires agencies to set target rates for future reductions in improper payments, identify the types and causes of improper payments, and highlight variances from targets or goals established. Significantly, the May 2003 guidance also required 15 agencies to publicly report improper payment information for 46 programs identified in OMB Circular No. A-11 in the agencies' fiscal year 2003 Performance and Accountability Reports. According to OMB, the programs were selected primarily because of their large dollar volumes (\$2 billion dollars or more in outlays). The TANF and CCDF programs are included in the 46 programs.

Internal Control Framework

In most cases, the cause of improper payments can be traced to a lack of or breakdown in internal control. Our *Standards for Internal Control in the Federal Government* provides a road map for entities to establish control for all aspects of their operations and a basis against which entities' control structures can be evaluated. Also, our *Executive Guide on Strategies to Manage Improper Payments: Learning from Public and Private Sector*

¹⁴ OMB guidance for implementing the act added the additional 2.5 percent requirement. See OMB Memorandum M-03-13. Improper Payments Information Act of 2002, Pub. L. No. 107-300 (May 21, 2003).

Organizations focuses on the internal control standards as they relate to reducing improper payments.¹⁵

The five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring—are defined in the Executive Guide in relation to improper payments as follows:

- Control environment—creating a culture of accountability by establishing a positive and supportive attitude toward the achievement of established program outcomes.
- Risk assessment—analyzing program operations to determine where risks of improper payments exist, what those risks are, and the potential or actual impact of those risks on program operations.
- Control activities—taking actions to address identified risk areas and help ensure that management’s decisions and plans are carried out and program objectives are met.
- Information and communication—using and sharing relevant, reliable, and timely financial and non-financial information in managing activities related to improper payments.
- Monitoring—tracking improvement initiatives over time, and identifying additional actions needed to further improve program efficiency and effectiveness.

¹⁵Internal controls are an integral component of an organization’s management that provides reasonable assurance that the organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. For more information on internal controls, see [GAO-02-69G](#) and [GAO/AIMD-00-21.3.1](#).

Improper payments in the TANF program can occur in all of the TANF payment types: ongoing monthly cash assistance payments to individuals or families; one-time payments to individuals or families; and payments made to a range of for-profits, non-profits, state agencies, and contractors. HHS has instructed states that they should recover any overpayments by recouping them from the recipients as a reduction in future TANF cash payments or by collecting cash repayments. It also states that the full amount of recovered overpayments made after October 1, 1996—PRWORA was signed into law in August 1996—is to be retained by the state and used for TANF program costs.¹⁶ Improper payments in the CCDF program can occur in all payment types: payments to child care providers or families.

States' Efforts To Manage Improper Payments Are Uneven

Almost all states we surveyed and visited reported taking some steps to assess whether their TANF and CCDF programs were at risk for improper payments or to measure the extent of improper payments. However, these efforts were uneven—not all states had assessed risks, risk assessments often did not cover all program payment types, and states' measures of the amounts of improper payments did not always rely on rigorous methodologies. While these assessments provide some valuable information, they do not provide a comprehensive picture of the nature and extent of improper payments in TANF and CCDF programs among the 16 states. In addition, while the states reported they have various strategies and tools in place to help prevent and detect improper payments, these efforts were also uneven. While states understand the importance of addressing improper payments, they cited several factors that make it difficult for them to adequately manage improper payments. The unevenness of internal controls among states may result in missed opportunities to further address improper payments.

¹⁶ACF Program Instruction for TANF, Transmittal No. TANF-ACF-PI-2000-2.

Almost All States Reported Some Risk Assessment Activities

Almost all the states we surveyed and visited reported performing some activities to assess whether their TANF and CCDF programs were at risk of improper payments. We defined a risk assessment as a formal or informal review and analysis of program operations. The purpose of a risk assessment is to determine where risks of improper payments exist, what those risks are, and the potential or actual impact of those risks on program operations.¹⁷ Conducting risk assessments helps to ensure that public funds are used appropriately and clients receive the proper benefits. Improper payments, including fraud,¹⁸ may occur in several different ways in the TANF and CCDF programs, involving clients, providers, and agency personnel. For example, an inadvertent error may result in an overpayment or underpayment when

- a client mistakenly fails to report some income,
- a provider accidentally receives payment due to a billing error, or
- a caseworker incorrectly records some information or makes an error in calculating a benefit amount.

Improper payments due to fraudulent activity may occur, for example, when

- a client files for and receives benefits in two jurisdictions concurrently,
- a provider claims payment for services not rendered, or
- an agency employee creates a fictitious case and collects the benefit.

In addition, a broad range of state entities may be involved in identifying improper payments and measuring the extent to which they occur. For

¹⁷ Risk assessments may include assessing program policies and procedures to identify those most at risk of resulting in improper payments; assessing the likelihood that improper payments are occurring; and calculating the amount of any improper payments made, for example, through a Quality Control system or program.

¹⁸For the purposes of this report, we defined a fraudulent payment, considered a subset of improper payments, as a payment made based on a participating household, recipient, provider, or employee intentionally providing incorrect or insufficient information on which eligibility and benefit determinations were made. (A full accounting of an amount of improper payments would include those identified as fraudulently obtained.)

overpayments and underpayments, these state entities may include frontline workers, quality control staff, or management staff. State entities involved in preventing and detecting fraud may include the state inspectors general offices, state fraud units, and state auditors.

The 16 states we surveyed and visited reported a mix of risk assessment activities. These activities include state studies conducted under the Single Audit Act and other studies by state auditors, fraud units, and inspectors general. States also identified other activities, including reviews of program policies, one-time studies or pilots, and regular reviews of client cases. States generally reported more activities for TANF than CCDF programs. More specifically, TANF-related activities were more likely to include regular quality control reviews than CCDF activities, as might be expected given the requirements for the previous AFDC program. Table 1 provides some examples of states' risk assessment activities.

Table 1: Examples of Risk Assessment Activities from States Surveyed and Visited

State	Description of Actions
Colorado	CCDF officials conducted a study to determine the extent to which child care assistance payments were supported by adequate documentation and records. Of these payments to providers, officials determined that 14.7 percent were either errors or exceptions to payment. The study included site visits and data collection activities in 32 of Colorado's 64 counties. The study recommended, among other things, that additional auditing controls of provider records and case files were needed at the local level to ensure that child care was appropriately provided and that families were eligible for assistance.
Illinois	Officials conducted an analysis of program risk by identifying ways that improper payments occurred in the child care program and examining current state policies to identify risk areas that could be addressed. In order to mitigate program risk, the study recommended several ways to improve its policies, including developing procedures and forms to establish repayment schedules for improper payments and providing stronger prevention mechanisms, including more sharing of data through computers at initial application.
Texas	TANF officials established work groups that assessed the risk of new policy initiatives and considered methods to better manage these risks. One method of risk management included developing bulletins that alert program staff to new and revised policies to better ensure proper implementation and reduce improper payments.
Florida	TANF officials reported that quality assurance staff regularly conduct case reviews to determine where risks exist. These reviews result in formal reports and require district offices to prepare corrective action plans to address the findings.

Source: GAO surveys and site visit information.

While states reported performing some risk assessment activities, these activities did not appear to be uniformly comprehensive in their coverage of all types of program payments. As shown in table 2, many of the states we surveyed said they had performed some type of an assessment or analysis of risk for three primary types of TANF payments, while others did not cover all of these payment types. Three states said they had assessed risks for monthly cash payments only. Data from HHS for fiscal year 2002 showed that in these three states, the percentage of TANF expenditures for cash assistance ranged from about 25 percent to more than 50 percent. (See app. I for each state's percentage of TANF expenditures for cash assistance.) While fewer states reported assessing risk in payments to service providers, states typically have procedures in place to monitor these contracting activities, as we reported in our previous work.¹⁹

Table 2: Types of TANF Payments Covered by States' Assessment of Risks as Reported by Surveyed States

Number of states	Monthly cash assistance payments	Payments for other benefits or services	Payments to service providers
6	✓	✓	✓
1	✓	✓	
3	✓		

Source: GAO.

Notes: Based on surveys of state TANF administrators in 11 states. One state did not respond to this question.

Most of the states we surveyed and visited reported taking steps to measure the extent of improper payments in their TANF and CCDF programs as part of their risk assessment activities, although the extent of these efforts was mixed. As shown in table 3, the surveyed states reported relying on a variety of methods to calculate their measures of improper payments. For the TANF program, four of the surveyed states (California, Maryland, Michigan, and Pennsylvania) as well as one site visit state (Texas) reported that they relied on a statistically representative sample to estimate an amount of improper payments, although these generally covered TANF monthly cash assistance payments only. Among the

¹⁹ See U.S. General Accounting Office, *Welfare Reform: Federal Oversight of State and Local Contracting Can Be Strengthened*, GAO-02-661 (Washington, D.C.: June 11, 2002).

surveyed states, fewer reported estimating an amount of improper payments for the CCDF program than for the TANF program. Compared with TANF, CCDF measures of improper payments generally occurred on a more ad hoc basis, such as a one-time study or pilot effort that covered one jurisdiction of a state, and were less likely to result from regular reviews of cases. In one state we visited, child care officials said they estimated the amount of improper payments for the largest subsidized child care program but not the other three programs also supported with CCDF funds.

Table 3: Extent to Which Surveyed States Reported Estimating an Amount of Improper Payments and the Methods Used

State	Methods Used by States to Estimate Improper Payments							
	Has estimated the amount of improper payments	Findings from State's Single Audits	Findings from other state or local auditors	Findings from state or local fraud units	Reviews of service provider or contractor	Reviews of sampled cases (not statistically representative of all payments)	Statistically representative sample of cash payments	Other ^a
TANF								
California	Yes			✓			✓	
Colorado	No							
Florida	Yes	✓		✓				
Idaho	Yes	✓		✓	✓	✓		
Kansas	Yes							✓
Maryland	Yes					✓	✓	
Michigan	Yes	✓		✓			✓	
New Mexico	Yes		✓	✓	✓	✓		
New York	No							
Ohio	No ^b							
Pennsylvania	Yes						✓	
CCDF								
California	No							
Colorado	Yes		✓	✓	✓	✓		✓
Florida	No ^b							
Idaho	Yes	✓		✓				
Kansas	Yes							✓
Marlyand	Yes			✓				
Michigan	No							
New Mexico	Yes ^c							
New York	No							

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Methods Used by States to Estimate Improper Payments								
State	Has estimated the amount of improper payments	Findings from State's Single Audits	Findings from other state or local auditors	Findings from state or local fraud units	Reviews of service provider or contractor	Reviews of sampled cases (not statistically representative of all payments)	Statistically representative sample of cash payments	Other ^a
Ohio	No							
Pennsylvania	Yes			✓				✓

Source: GAO.

Note: Based on surveys of state TANF and CCDF administrators in 11 states.

^aOther methods that states identified included annual independent program audits, self-reviews coordinated by counties, and gathering information from a state's automated eligibility system. States' automated systems can help identify improper payments through programmed edits and checks on data entered and on benefit calculations, for example.

^bAlthough the state reported that it did not calculate an amount, it provided some information on the amount of improper payments recovered.

^cDid not provide information on methods used.

Many of the states we visited and surveyed provided us data on the amount of improper payments in their TANF and CCDF programs, but these data do not provide a complete picture of the amount of payments in these states' programs and cannot be used for comparisons among states. Too often, states' assessment activities did not measure the amount of improper payments among all types of TANF payments, and therefore do not present a complete picture of improper payments. In addition, some state data included amounts based on overpayments to clients only while others also included underpayments to clients based on agency errors. In other cases, the amount included only those payments identified as fraudulent but not other types of improper payments based on inadvertent mistakes. As a result, data were not comparable across states.

However, data on the amount of improper payments, can play an important role in states' program management, helping them to identify program areas at risk so they can be addressed and to recover funds when possible. The following are some examples of these types of activities from the states we visited.²⁰

²⁰We did not independently verify the data provided by states.

-
- In Texas, TANF program officials stated that the quality control unit and the fraud unit estimate the amount of improper payments, which include client error, agency error, and fraud. The quality control unit uses a statistically representative sample of cash payments to calculate improper payments and the fraud unit uses all claims established in the investigation system to estimate improper payments. Based on these methods, Texas officials estimated the amount of improper payments to be \$6.3 million for the TANF program during fiscal year 2002.²¹ Furthermore, officials estimated that \$5.7 million in improper payments were recovered that same year.²²
 - In Illinois, child care program officials stated that suspected fraud cases are sent to the state Bureau of Investigations to be examined. In 2002, the Illinois Office of Inspector General completed 114 CCDF investigations, which identified \$1,172,293 in overpayments. The office cited several examples of fraudulently received child care benefits, including the following:
 - A client falsified her payroll information to qualify for child care assistance. The alleged overpayment was \$27,203.
 - A client falsified payroll information to qualify for child care and failed to report her true earnings. The child care overpayment totaled \$45,174.
 - In Virginia, child care program officials told us that they conducted a pilot study to assess the extent of fraud in the child care subsidy program. The pilot focused on 3 of the state's 121 local social service offices. During the year-long pilot, a total of 28 fraudulent claims were identified, and based on these findings, officials determined that the savings that would accrue to the state would justify the costs of fraud monitoring. Child care officials identified several examples of fraudulent activity, including the following:
 - A client failed to report income from a second job, that she was living with the child's father, and the father's earnings; the total household

²¹As reported to HHS for fiscal year 2002, Texas had TANF expenditures of about \$741 million, with about 28 percent of these expenditures for cash assistance.

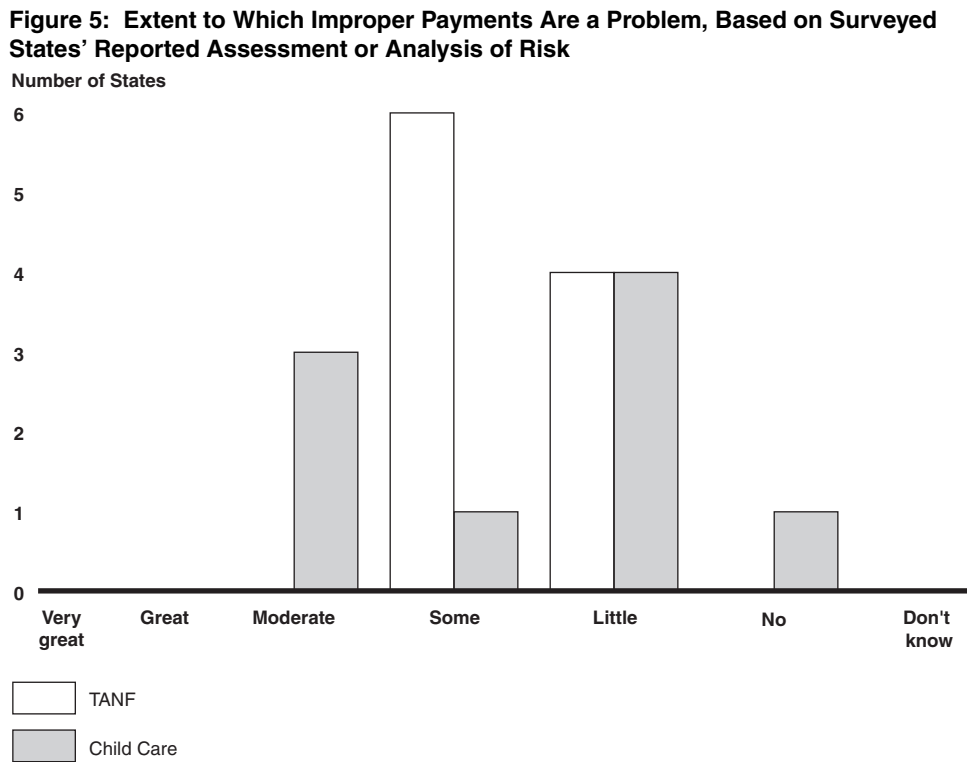
²²The amount of improper payments recovered in fiscal year 2002 may include some overpayments made in previous years.

income made them ineligible for assistance. The total overpayment was \$8,944.

- A provider submitted invoices for five siblings for child care provided during periods when the provider was not providing care and was not living near the children. The total overpayment was \$14,931.

States generally rely on information from risk assessment activities to identify the extent of program risks and to highlight problem areas. Officials in the states we surveyed responded that on the basis of their risk assessments, they did not perceive improper payments to be a great problem in either the TANF or CCDF programs. However, some CCDF officials reported improper payments as a moderate problem while none of the TANF officials did so, as shown in figure 5.

Figure 5: Extent to Which Improper Payments Are a Problem, Based on Surveyed States' Reported Assessment or Analysis of Risk



Source: GAO.

Notes: Based on surveys of state TANF and CCDF administrators in 11 states. One state did not respond to this question for the TANF program; two states did not respond to this question for the CCDF program.

As discussed previously, the nature and extent of states' reported risk assessments varied greatly, and often did not cover all payment types. This suggests their overall program risk assessments were based on a limited perspective. While state officials did not see improper payments as a great problem, they had identified factors that contributed to improper payments in their programs, as shown in table 4. TANF respondents most often identified inaccurate information on income, earnings, and assets and clients not meeting participation requirements as factors contributing to improper payments. Inaccurate information on income, earning, and assets can occur, for example, when clients do not report income from employment or changes in earnings that they are required to report and that may affect the amount of their payments or basic eligibility for aid.

Table 4: Factors That Have Contributed to Improper Payments over the Past 2 Fiscal Years for the TANF Program as Identified by Surveyed States

Factors contributing to improper payments	Number of states responding				
	Great extent	Moderate extent	Little extent	No extent	Don't know
Related to clients					
Nonreporting/underreporting of income	4	5			1
Client receiving payment in more than one state			6	3	1
Incorrect reporting of assets		2	4	3	1
Incorrect reporting of household size		5	4		1
Incorrect citizenship or immigration status ^a			5	4	1
Incorrect information on client's compliance with program requirements, such as participating in required activity		3	3	2	2
Other					
Related to providers					
Overstating performance			2	3	3
Claiming for services not rendered			3	3	2
Other					2

Source: GAO.

Notes: Based on surveys of state TANF administrators in 11 states. Eleven states responded to the survey, but not all answered each question or item.

^a To be eligible for aid, individuals must meet certain citizenship or legal immigrant conditions.

For states' child care programs, the surveyed officials identified factors associated with both clients and child care providers as contributing most frequently to improper payments, as shown in table 5. Officials in the states we visited identified examples of client- and provider-related problems. For example, Virginia CCDF officials identified several cases in which clients were no longer working or looking for work and therefore no longer eligible for a child care subsidy. Illinois officials cited several cases in which the provider gave inaccurate information on the amount of child care received. In one case, the provider billed the state for children she had stopped caring for, and in another case the provider billed the state for watching children during hours when the provider was actually working at another job.

Table 5: Factors That Have Contributed to Improper Payments over the Past 2 Fiscal Years for the Child Care Subsidy Program as Identified by Surveyed States

Factors contributing to improper payments	Number of states responding				
	Great extent	Moderate extent	Little extent	No extent	Don't know
Related to clients					
Nonreporting/underreporting of income		5	1		3
Client receiving payment in more than one state			1	3	4
Incorrect reporting of household size		2	4		2
Incorrect citizenship or immigration status of child ^a				4	3
Incorrect information on client's compliance with employment or education and training requirements		2	2	1	2
Claiming subsidy for child care not received		2	4		3
Other					1
Related to providers					
Receiving subsidies for more children than served		1	6		3
Receiving subsidies for more hours of care than actually provided		4	3		3
Receiving subsidies when not meeting any existing licensing requirements			2	4	2

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Factors contributing to improper payments	Number of states responding				
	Great extent	Moderate extent	Little extent	No extent	Don't know
Receiving subsidies when no services rendered		3	5		2
Other		1			1

Source: GAO.

Notes: Based on surveys of state CCDF administrators in 11 states. Eleven states responded to the survey, but not all answered each question or item.

^a To be eligible for aid, individuals must meet certain citizenship or legal immigrant conditions.

Other: Colorado identified excessive absences of children that the provider billed for and was paid.

States More Likely to Use Prevention and Detection Tools in TANF Than in CCDF

In addition to assessing a program's risk of improper payments, states reported using other key aspects of an internal control system, including emphasizing accountability and using tools to prevent and detect fraud, although the extent of use varied among the states and was less widespread among CCDF programs. For example, states we surveyed sometimes used performance goals to instill a culture of accountability by working toward improvement and achievement of established program outcomes. Although improper payment estimates were incomplete (as noted in the previous section), table 6 shows that a majority of TANF programs and two CCDF programs surveyed had established goals for reducing improper payments. In addition, some states were required to generate reports on improper payments to senior government officials. This was also the case in one of the states we visited. Texas officials told us they have established statewide performance goals for reducing the TANF rate of improper payments and hold regional offices accountable for performance objectives. If regions fail to meet their objectives, they must draft and implement performance improvement plans, which are then monitored by state officials.

Table 6: Strategies Used to Prevent and Detect Improper Payments as Identified by the Surveyed States

Strategy	Number of states reporting using strategy	
	TANF	CCDF
Has established goals for reducing improper payments and is required to report on improper payments to other government entities	2	0
Has only established goals	6	2
Has only a reporting requirement	1	0
Neither strategy in place	2	8

Source: GAO.

Note: Based on surveys of state TANF and CCDF program administrators in 11 states. One state did not respond to part of this question for the CCDF program.

Greater emphasis on reducing improper payments in state TANF programs likely stems from states' experience under the former AFDC program in which the federal government had more guidance and requirements specifically related to improper payment levels. In contrast, state CCDF assistance programs do not share that history and generally do not have the same formal internal control elements in place as in TANF. For example, officials in Virginia told us TANF fraud is more under control than child care fraud because there are more institutional processes in place to manage improper payments. They noted these processes are holdovers from the old AFDC program, and pointed out that eligibility workers are more aware of improper payment activities in TANF because of the training they received under AFDC. Along these lines, CCDF officials in Virginia told us they do not have any performance goals or measures for reducing improper payments, and pointed out that internal controls aimed at reducing fraud for the CCDF program are relatively new.²³

In addition to performance goals and reporting requirements, each TANF and CCDF program reviewed reported performing a variety of activities to verify the accuracy of information to determine client eligibility and the proper payment amount, as shown in table 7. For example, Illinois officials told us they verify among other things: income, assets, residency, relationship of members in household, age, school attendance, and child

²³ Although state programs that administer CCDF and TANF funds may go by different names, we refer to them as CCDF and TANF programs in this report.

support payments, for all appropriate household members to determine TANF eligibility. In addition, any caseworker or member of the public who is suspicious of welfare fraud is encouraged to complete a one-page on-line form that is submitted to Illinois' Office of Inspector General. Fraud investigations are then initiated, if warranted.

Table 7: Activities Reported by Surveyed States to Prevent and Detect Improper Payments

Activity	Number of states that report listed activity	
	TANF	CCDF
Require documentation from client	11	11
Match automated computer files	11	10
Initiate a fraud investigation if warranted	10	11
Conduct telephone, fax, or e-mail contacts	10	10
Access online databases	9	8
Conduct program integrity or quality control review	7	8
Child care only:		
Confirm licensing status of providers, if warranted	NA	11
Conduct background checks of providers	NA	10
Conduct visits to providers	NA	8

Source: GAO.

Note: Based on surveys of state TANF and CCDF program administrators in 11 states. NA refers to "not applicable."

As the list of activities in table 7 demonstrates, many CCDF programs report that they verify the accuracy of payments to providers as well as clients, although this occurs in a variety of ways given the flexibility provided to states under CCDF.²⁴ All CCDF programs surveyed reported that they confirm the licensing status of regulated child care providers before payments are made and most conduct background checks for providers. For example, in Texas, CCDF funds are monitored in a two-tier system. CCDF funds are distributed by the state to 28 local boards that

²⁴This flexibility allows states to choose how to structure their program, and payment controls vary based on the structure developed. Regardless of the program structure, state administrators are responsible for general oversight of providers, including safety standards and appropriate licensing.

contract out the CCDF program. Contract monitors at the state level identify questionable costs from the boards, while contractors monitor the individual providers' contracts at the local level.

Some child care providers are not required to be licensed, and some CCDF officials reported having a more difficult time monitoring payments to these types of providers.²⁵ These legal provider arrangements (referred to as unregulated or unlicensed providers) are generally established by parents and frequently involve care by a family member. Under CCDF, states are to allow parents to make their own decisions on the type of child care used, as long as they choose a legally operating provider. CCDF officials in Virginia told us there might be more potential for fraud among unregulated providers because the officials have little knowledge about unregulated providers, and do not feel they have enough tools in place to monitor the legitimacy of all unregulated providers.

In addition to activities taken by states to help ensure initial eligibility, all states surveyed reported requiring additional check-ins with clients to ensure that their eligibility status has not changed (often referred to as a redetermination). Most states surveyed said that they require a redetermination at least once every 12 months for both programs, although the method of check-in is generally more flexible for the CCDF program. For example, the majority of TANF programs require clients to visit the TANF office in order to continue receiving benefits. Conversely, most CCDF programs allow clients to check in by phone, fax, e-mail, or mail. This difference may be explained by state welfare programs' long history of requiring periodic office visits for families to continue receiving monthly checks. In contrast, the newer CCDF program can be characterized as an important support for working families not associated with traditional welfare and the welfare office. Virginia CCDF officials told us redetermination methods stem from the philosophy that clients should not have excessive requirements to meet agency representatives face-to-face. A CCDF official in Washington echoed this sentiment when she told us benefit interviews are never meant to interfere with a client's work or training schedule. These views are consistent with CCDF's objective to assist parents with child care so that they can enter or remain in the workforce.

²⁵The licensing and regulating of child care providers is determined at the state level rather than the federal level. Under CCDF, any care subsidized must meet the health and safety requirements in place in each state.

One specific activity all the states reported relying on to help identify accurate eligibility information was data sharing, although the extent of use varied. Data sharing, a key control activity, allows comparison of information from different sources to confirm initial and continuing client or provider eligibility. All states reported performing at least one data sharing activity; however, the amount of data sharing varies greatly between the TANF and CCDF programs. Among the states we surveyed, while the majority of TANF programs reported data matching with at least 10 sources, the CCDF programs reported data matching with significantly fewer sources. For example, while all of the TANF programs we surveyed reported sharing data with the state department of labor or employment security to ensure that clients are correctly reporting their income levels,²⁶ only 3 of 11 CCDF programs reported doing the same. Appendix II summarizes data matching results from all surveyed states.

The extent to which states reported using data sharing capabilities in TANF and CCDF programs varied by program, in part because state TANF programs are more likely to have automated information systems that can help them analyze large amounts of data from other sources. Some possible explanations for this difference may be the greater maturity of the TANF program and the existence of data sharing requirements for TANF that do not exist for CCDF.²⁷ Additionally, under TANF's predecessor (AFDC), the federal government funded a large portion of state-run automated computer system costs in earlier years. Recognizing the importance of automated systems in efficiently and accurately determining eligibility, Congress acted to encourage states to develop automated systems for the AFDC program by authorizing ACF to reimburse states for a significant proportion of their total costs to develop and operate automated eligibility determination systems that met federal

²⁶State administrators may check with the state department of labor or employment security to ensure a client has correctly reported the income level on his or her eligibility documentation and is consequently receiving the proper benefit amount.

²⁷ The Social Security Act requires state TANF programs to match with IEVS (see 42 U.S.C. §1320b-7). Using IEVS, states routinely match TANF applicant- and recipient-supplied information against several data sources including (1) Internal Revenue Service data on interest, dividends, and other types of unearned income; (2) Social Security Administration data (Retirement, Survivors, and Disability Insurance benefits, Supplemental Security Insurance Benefits (SSI), and annual earnings); and (3) state quarterly wage reports and unemployment insurance benefits. All TANF survey respondents said they perform this match.

requirements.²⁸ Under PRWORA, states may use their TANF or CCDF funds for their automated system needs, although no specific federal requirements exist for these systems.

The level of sophistication of data sharing practices varied in the states we visited. For example, CCDF officials in Washington have implemented a complex automated system that allows them to find duplicate payments. Another automated data sharing resource frequently used with TANF programs is the Public Assistance Reporting Information System (PARIS). PARIS helps states voluntarily share information on public assistance programs to identify individuals or families who may be receiving benefit payments in more than one state simultaneously.²⁹ Almost half of the TANF programs surveyed participate in PARIS. No CCDF programs surveyed participated in PARIS because the project was designed especially for Medicaid, food stamps, and TANF. ACF officials said they are considering the possibilities of PARIS for the CCDF program.

Not all data matching is done with automated systems however. Georgia CCDF officials told us they had conducted a match with Head Start to ensure that families are not being paid twice for child care.³⁰ To conduct this match Head Start program officials provided CCDF administrators with a printed list of enrolled children, and officials cross-referenced the list to look for duplication. Officials noted that the process would have been more efficient if it were automated, but speculated that a lack of funding or on-going partnership may be reasons the process was not computerized.

²⁸For more information on state automated systems under welfare reform, see [GAO/HEHS-00-48](#).

²⁹PARIS was initially an informal project begun by an ACF staff person, joined voluntarily by some states, and relying on computer services provided at no cost by Defense Manpower Data Center. Participating states sign a uniform agreement that governs the interstate exchange of data. Recipient lists for all participating states are matched with one another quarterly at a central location, using individuals' SSNs. Each state subsequently receives a list of individuals who may be receiving duplicate TANF, Medicaid, and food stamp benefits in other states. For additional information on the PARIS project, see the PARIS Internet site at www.acf.hhs.gov/paris and the U.S. General Accounting Office, *Public Assistance: PARIS Project Can Help States Reduce Improper Benefit Payments*, [GAO-01-935](#) (Washington, D.C.: Sept. 6, 2001).

³⁰For example, a child may be in Head Start 4 hours a day, and receiving 8 hours of child care (for a total of 12 hours of care). If the parent only works 8 hours a day, the family is receiving 4 hours of benefits to which it is not entitled. Data matching helps ensure the proper amount of care is being provided.

While states reported having implemented many prevention and detection tools to manage improper payments, it is difficult to determine the relative effectiveness of these efforts. If states routinely performed comprehensive risk assessments or rigorously measured improper payments, it would be easier to understand the effect of these efforts. Without such strategies, success of these initiatives cannot be quantitatively determined, and the return on investment is unknown.

States Cited Factors That Make It Difficult to Adequately Address Improper Payments

While the states visited and surveyed understand the importance of addressing improper payments, many cited factors that make it difficult for them to address improper payments. Table 8 highlights the most frequently cited factors and demonstrates that many concerns were similar for the TANF and CCDF programs. Factors frequently cited in both programs include competing demands for staff attention and the lack of staff working specifically on improper payments. Based on their survey responses, one reason states often face competing demands is because they place their greatest focus on key mission goals, such as moving TANF clients into employment and meeting clients' child care needs. This is consistent with the transformation in the federal welfare program from a cash welfare entitlement program to an employment program. Officials in some of our site visit states noted that the shift from AFDC to TANF changed the focus of the program. For example, Washington state officials said the TANF program emphasizes assisting the recipient with the tools needed to obtain and maintain employment. Illinois state officials also identified activities other than payment accuracy as their primary focus in meeting TANF program goals, such as providing income supports including child care assistance and transportation. Related to these factors are states' concerns about insufficient funding, with about half of the states citing this as a factor for TANF and CCDF. We also heard this concern from some of the state auditors we spoke with in site visit states; the auditor general in one state said that his office has not conducted any reviews of the TANF and CCDF programs outside of the single audit within the past few years, in part due to resource limitations and the loss of staff within the department.

Table 8: Most Frequently Cited Factors That Make It Difficult to Address Improper Payments as Reported by Surveyed States

Factors that make it difficult to address improper payments	Number of states that cited factor as a problem	
	TANF	CCDF
Insufficient policies, procedures, and regulations in place	1	4
Insufficient expertise available	4	3
Difficulty obtaining valid or reliable data	1	4
Difficulty obtaining data in time to be useful	4	4
Automated data systems do not provide needed data	2	5
Limited ability to use SSNs for data sharing	0	6
Insufficient funding	5	7
Limit on proportion of funds that can be spent on administration	4	3
Competing demands for eligibility caseworkers' or management's attention	9	7
Insufficient staff working specifically on improper payments	8	8
Concerns about "going after" families in need	5	4
Costs of pursuing improper payments perceived to outweigh potential benefits	5	7
Reluctance of law enforcement to prosecute	6	4

Source: GAO.

Note: Based on surveys of state TANF and CCDF program administrators in 11 states.

Among CCDF officials, survey respondents were also less likely to have focused on managing improper payments and more likely to have focused on other aspects of their program, such as matching clients with providers. For example, Kansas CCDF officials were concerned that policies and monitoring activities developed to prevent improper payments and fraud could become overly burdensome, thereby possibly limiting the quality of services they provide to the children and families they serve. Officials also cited a lack of staff dedicated solely to addressing improper payments as problematic for both the TANF and CCDF programs. For example, Illinois officials said they have fraud cases that are not investigated due to small staff ratios per case or loss of staff. Likewise, Virginia officials stated that there is a lack of investigator staff to pursue fraud cases.

States' concerns about how best to use limited resources highlight the importance of risk assessment as a key element of sound internal control systems. Risk assessment activities allow an organization to focus often limited resources on the most significant problem areas and determine where risks exist, what those risks are, and what needs to be done to address the identified risks. This helps to ensure that public funds are used appropriately and clients receive the proper benefits, thereby helping meet the program's mission and goals.

Officials also cited problems that were more prevalent in one program than the other. In the TANF program, officials expressed more concern about the reluctance of law enforcement to prosecute low dollar value cases. For example, TANF officials in Virginia told us about law enforcement officials' reluctance to prosecute improper payment cases unless they reach a certain dollar amount. The commonwealth attorney in each county determines the threshold for prosecuting these cases.

On the other hand, CCDF officials frequently cited their limited ability to use SSNs for data sharing as a problem. While the Social Security Act and implementing regulations require SSNs as a condition of eligibility for the TANF program, no such law exists for the CCDF program. States may not require SSNs for the CCDF program without violating the Privacy Act of 1974. States may request that applicants provide their SSNs but must make clear that supplying the numbers is not required as a condition of receiving services.³¹ HHS has told states they may use alternatives (such as a unique case identifier) to the SSN to verify non-applicant income and resources when determining eligibility and benefit levels of applicants. Regardless of HHS's position on this issue, CCDF officials in Illinois reported that the inability to require SSNs presents the potential for fraudulent payments. Similarly, CCDF officials in Florida reported that they would like SSNs to be required at the federal level, because they believe the effectiveness of data sharing is limited when parents are allowed to report them voluntarily. On the other hand, at least one state we reviewed addressed this issue in its CCDF program by asking for SSNs, but noting that the provision of them is voluntary. This state said that clients provided SSNs in all but 2 percent of cases.

In addition to the SSN issue, CCDF officials often cited insufficient funding as a factor that hinders their efforts to address improper payments. For

³¹See section 7 of the Privacy Act of 1974, 5 U.S.C. § 552a note.

example, Washington state CCDF officials said they do not have enough money to improve improper payment identifications and recoveries because CCDF rules cap administrative costs at 5 percent of the grant, and improper payment identification is a very labor-intensive process. Similarly, Virginia CCDF officials told us the reason they do not have enough staff dedicated to addressing improper payments is a result of the funding restrictions imposed by the CCDF's administrative cap. While some states saw the administrative cap as a limitation, others did not. Nationwide, the average portion of total funds spent on administrative costs in the CCDF program is about 3 percent. In addition, states may structure their programs to use state maintenance of effort funds (required to receive a portion of their CCDF funds) for these costs because no administrative cap exists on these state funds.

ACF officials explained that some activities related to identifying and addressing improper payments may not be considered administrative activities to be included under the cap. For example, eligibility determination and redetermination, training of child care staff, and the establishment and maintenance of computerized child care information systems are not to be considered administrative activities, and these activities can play an important role in states' efforts to combat improper payments. At the same time, CCDF regulations state that activities such as program monitoring; audit services, including coordinating the resolution of audit and monitoring findings; and program evaluation are considered administrative. States' choices about how they design and structure their internal control activities affect the extent to which the administrative cap may limit their efforts.

HHS Has Limited Information on the Risk of Improper Payments, but Has Efforts Under Way to Improve Monitoring Activities and Assistance to States

HHS relies on the single audit process and financial expenditure reporting to monitor state compliance with federal guidelines and oversee whether states expend federal funds properly. These mechanisms, however, do not capture information on the various strategies and tools that states have in place for managing improper payments. In the absence of such information, HHS cannot adequately determine if the TANF and CCDF programs are susceptible to significant improper payments, as required by the Improper Payments Act. HHS officials acknowledge that they will need information on state activities to manage improper payments if they are to comply with the Improper Payments Act. As a result, HHS recently started several projects to collect information from selected states. HHS also initiated several projects to encourage state use of certain tools in managing improper payments, such as data matching capabilities. Several

states in our review reported that they would like additional assistance from HHS in identifying effective practices for managing improper payments. While HHS's projects are a good start, they do not provide mechanisms to gather information on state control activities on a recurring basis. The absence of such mechanisms could hinder HHS's ability to assess the extent to which program payments may be at risk and comply with the Improper Payments Act.

HHS Monitoring Activities Do Not Provide Information That HHS Needs to Adequately Assess the Risk of Improper Payments

HHS is required to annually review the TANF and CCDF programs to determine if they are susceptible to significant improper payments. The Improper Payments Act also requires agencies to estimate the amount of improper payments if a program is determined to be susceptible to significant improper payments. HHS needs information on the various controls that states have in place to minimize improper payments in order to adequately assess risk. In preparing its 2004 review of TANF and CCDF, HHS used findings from single audit reports, the key activity that HHS relies on to monitor state fiscal activities.

Single audits assess whether states have complied with requirements in up to 14 managerial or financial areas, including allowable activities, allowable costs, cash management, eligibility, reporting, period of availability of funds, procurement and subrecipient monitoring.³² Audit findings in many of these areas often identify control weaknesses that can lead to improper payments. Based on an analysis of single audit findings, particularly findings related to eligibility and allowable cost, HHS concluded in its January 2004 review that there were no systemic problems or improper payment trends in the TANF and CCDF programs. HHS also concluded that only a very small percentage of program costs have been classified as misspent funds based on the rate of questioned costs included in the Single Audit reports, which according to HHS, has been less than .1 percent of program costs in recent years. While single audit findings as well as the amounts of unallowable or questioned costs that the audits identify are useful in determining the potential for improper payments in the TANF and CCDF programs, the audits are not designed to provide a complete

³²A previous GAO study on TANF contracting reported that single audits identified numerous findings on subrecipient monitoring, including inadequate fiscal and program monitoring of local workforce boards and the lack of state procedures to monitor activities of TANF subrecipients. Subrecipients for TANF are for-profit, nonprofit, and nongovernmental entities that states and localities contract with to provide services. See [GAO-02-661](#).

description of the methods and activities that the states use to minimize improper payments. Questioned costs identified in single audits are also not intended to provide an estimate of the total amount of improper payments, and the methods used to derive questioned costs are not consistent among state auditors. For example, we observed variation in the methods that auditors used to identify questioned costs when testing whether TANF payments are accurate according to states' eligibility and payment criteria. In reviewing the fiscal year 2002 and 2001 single audit reports for the five states we visited, we noted that some samples were selected statistically so that any questioned costs could be projected to all TANF payments and others were not. Also, some auditors determined that payments were improper if case files were missing or incomplete while others identified improper payments based on the specific eligibility criteria that clients failed to meet.

HHS also reported that it considered information from its reviews of state expenditure reports in determining if TANF and CCDF payments were susceptible to significant improper payments. Federal guidelines require states to report on the expenditure of TANF and CCDF funds on a quarterly basis. HHS reported that its review of these reports helps to ensure that states are properly expending TANF and CCDF funds. However, regional office staff said that few resources are devoted to financial expenditure reviews and that the reviews are limited in identifying improper payments because expenditures are reported on a summary level and states are not required to submit detailed financial reports that they would need to identify improper payments. As a result, these reviews provide little useful information in assessing the risk of improper payments.

Also, HHS reported that it gains access to information about state practices and activities from the TANF and CCDF plans that PRWORA requires states to submit to HHS, although this information is not used directly to monitor state fiscal activities. The state plans describe the practices that states use to meet the key objectives and federal requirements of the TANF and CCDF programs. Further for TANF plans, states are required to certify that they have procedures in place to combat fraud and abuse. However, states are not required to describe these procedures in their TANF plans. Similarly, CCDF plans do not require states to describe the procedures that they have in place to combat fraud and abuse but HHS officials report that they often gain an understanding of state procedures in reviewing and approving these plans.

HHS Has Some Efforts Under Way to Improve Monitoring Activities and Assistance to States

HHS officials acknowledged that HHS's monitoring activities do not provide enough information to determine if TANF and CCDF programs are susceptible to significant improper payments. In our most recent report on governmentwide improper payments initiatives, we reported that HHS did not include information on TANF and CCDF improper payments in its Performance and Accountability Reports for fiscal year 2003, as required by OMB guidance for implementing the Improper Payments Act.³³ The TANF and CCDF programs are among the 46 programs that OMB required agencies to report the results of their improper payment efforts in the Management Discussion and Analysis section of their accountability reports for fiscal year 2003. Specifically, we reported that HHS did not report improper payment amounts, initiatives to prevent and reduce improper payments, or impediments to preventing or reducing them.

HHS has started several initiatives intended to collect more information on state efforts to control TANF and CCDF improper payments. HHS has also started several initiatives to assist states in managing improper payments and to encourage state use of certain tools to minimize improper payments, such as data matching capabilities. These initiatives should help HHS begin to assess the risk of improper payments and send a strong signal to states that managing improper payments is an important issue. They should also help states understand that the information they provide HHS on the strategies and tools that they have in place to manage improper payments is critical to determining whether these programs are susceptible to significant improper payments.

HHS's initiatives to collect more information on state CCDF programs are under way, and HHS is already starting to compile the results.

CCDF Initiative

HHS officials developed the CCDF initiative in September 2003. The overall goals of the initiative are to improve monitoring and administration regarding improper payments and fraud, provide better definitions of child care errors and child care fraud, and gather documented "best practices." HHS officials also expect to identify other technical assistance materials and any new information reporting needs for the states. As part of the CCDF initiative, HHS recruited a state agency official with experience in

³³U.S. General Accounting Office, *Financial Management: Fiscal 2003 Performance and Accountability Reports Provide Limited Information on Governmentwide Improper Payments*, [GAO-04-631T](#) (Washington, D.C.: Apr. 15, 2004).

program integrity to help the Child Care Bureau oversee the initiative. According to HHS officials, key actions for completing the initiative include:

- Working with selected states to determine whether there is an effective and cost efficient approach or methodology for estimating improper payment amounts in the CCDF program.
- Conducting visits to some of the selected states to observe the internal control and other activities they have in place to manage improper payments.
- Coordinating with the HHS Office of the Inspector General to provide training and technical assistance on improper payments and fraud to state CCDF officials.
- Coordinating with the United Council on Welfare Fraud and the American Public Human Services Association to discuss child care fraud and other issues.

HHS is working with 11 states (Arkansas, Connecticut, Georgia, Indiana, Maryland, Ohio, Oklahoma, Oregon, South Carolina, Virginia, and Wisconsin) on the project. According to HHS officials, these 11 states provide experience in dealing with erroneous payments, knowledge of the capacity of their automated systems, and strong working relationships among key state agencies. In addition, both centralized and county-based organizational structures are represented in the 11 states.

HHS held initial meetings with the 11 states during November 2003, in Washington, D.C. State officials such as child care administrators, fraud directors, quality assurance directors, auditors, and investigators participated in the meetings along with HHS Child Care Bureau and regional office staff. During the meetings, states discussed various approaches to controlling errors and fraud. In addition, the Child Care Bureau has conducted a number of conference calls with states, including one on PARIS.

Since the November meeting, HHS has completed site visits to two states, Connecticut and Arkansas, and plans to complete visits to three other states—Indiana, Ohio, and Oklahoma—by the end of June 2004. HHS officials told us that they would compile all of the information from their visits into a report to analyze and identify possible options for estimating

payment errors in the CCDF program and for improving program integrity. HHS expects to issue its report by September 2004.

TANF Initiatives

HHS has developed plans to implement three projects aimed at improving its monitoring activities for TANF and assistance to states. HHS is actively working with OMB on its implementation plans for the TANF projects to ensure that they strike the right balance between the authority that HHS has to oversee TANF, as set forth by PRWORA, and the requirements of the Improper Payments Act.

The first project involves asking two states to volunteer for an expanded single audit review of their TANF programs by state auditors. Auditors are expected to conduct more detailed examinations of certain state controls, such as those used to determine that payments are in accordance with eligibility criteria and those controls used to oversee payments to entities that states contract with to provide TANF services. While this project only includes two states, HHS hopes to gain detailed knowledge of the adequacy of controls that states have in place to identify improper payments in all payment types. HHS said it plans to evaluate the first-year results of the project, report the information to OMB, and then decide upon second-year initiatives based on the initial results. According to HHS, it must still secure funding for these audits and obtain agreement from state auditors to perform the additional work. HHS is working with its Office of Inspector General to identify states to participate in the pilot project.

The second TANF project involves collecting and sharing information on state activities to address improper payments. HHS is drafting a letter to states asking them for information on their “best practices” for addressing improper payments. HHS says the letter will request that states describe how they define improper payments in the state, the process used to identify such payments, and what actions are taken to reduce improper payments. HHS noted that the letter will make clear that a state's submission is voluntary. HHS also said it is working with OMB to ensure that the letter is in accordance with the oversight authority that HHS has under PRWORA and requirements under the Paperwork Reduction Act of 1995.³⁴ According to HHS, it plans to establish a repository for the state submissions, which would be available to all states for viewing on an HHS Web site.

³⁴Pub. L. No. 104-13, 109 Stat. 163 (May 22, 1995).

The third project involves encouraging more states to use PARIS. PARIS is the interstate match program that was initiated to help state public assistance agencies share information to identify individuals or families who may be receiving or may have duplicate payments improperly made on their behalf in more than one state. In 2001, we reported on the usefulness of PARIS in identifying improper payments in the TANF program along with other programs for low-income individuals, such as food stamps and Medicaid.³⁵ Currently only 22 states participate in PARIS. Other states reported that they do not participate in PARIS for various reasons, including the lack of data showing that participating would produce savings for their state.

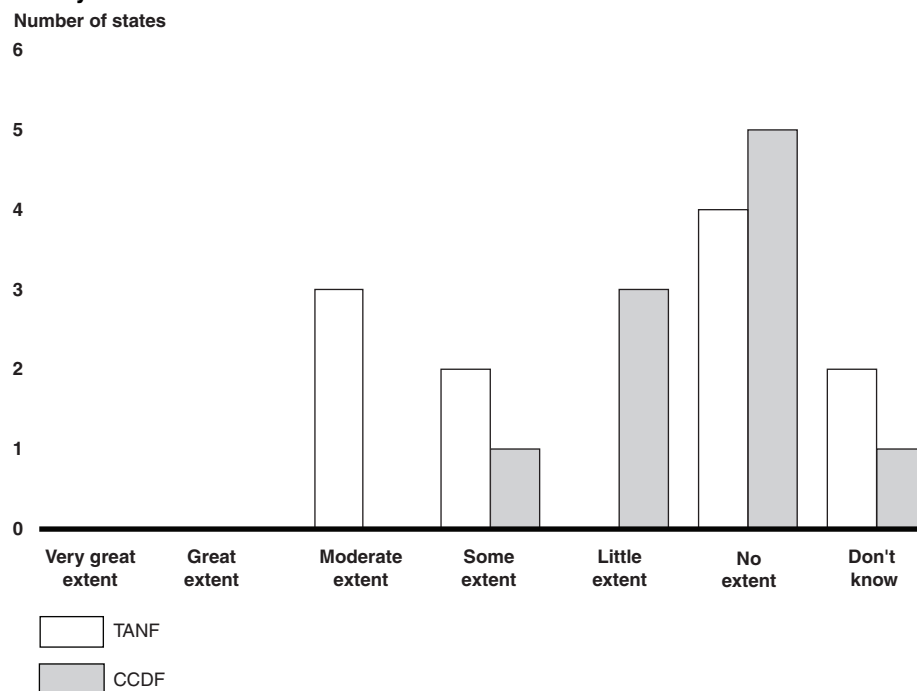
ACF officials say they have promoted state awareness of PARIS at conferences and ACF staff currently participate as members of the PARIS board of directors. In addition, HHS's proposed fiscal year 2005 budget includes \$2 million for PARIS activities. HHS plans to use \$500,000 of the \$2 million for contractor support to conduct an evaluation of participant states' PARIS activities to (1) establish a valid and reliable method for calculating the costs and benefits of participating in PARIS and (2) disseminate data on cost and benefits to other states. HHS also plans to devote a full-time equivalent position to manage the PARIS project.

In carrying out these projects for TANF and CCDF, HHS expects to also provide more assistance to states in managing improper payments. Several states that we surveyed said they would like additional assistance from HHS in this area. We specifically asked states the following: To what extent, if any, have you received assistance from HHS (regional or headquarters) regarding identifying and managing improper payments in your state's TANF and CCDF programs—assistance such as responses to state queries, any written guidance, any Web-based HHS information, conference, presentation, etc.?

³⁵[GAO-01-935](#).

Many of the states we surveyed reported that they did not receive assistance from HHS regarding managing improper payments. As figure 7 shows, states reported that HHS generally provided little to no assistance for the CCDF program and moderate to some assistance for the TANF program on this topic.³⁶

Figure 6: Reported Extent of Assistance from HHS on Improper Payments from Surveyed States



Source: GAO.

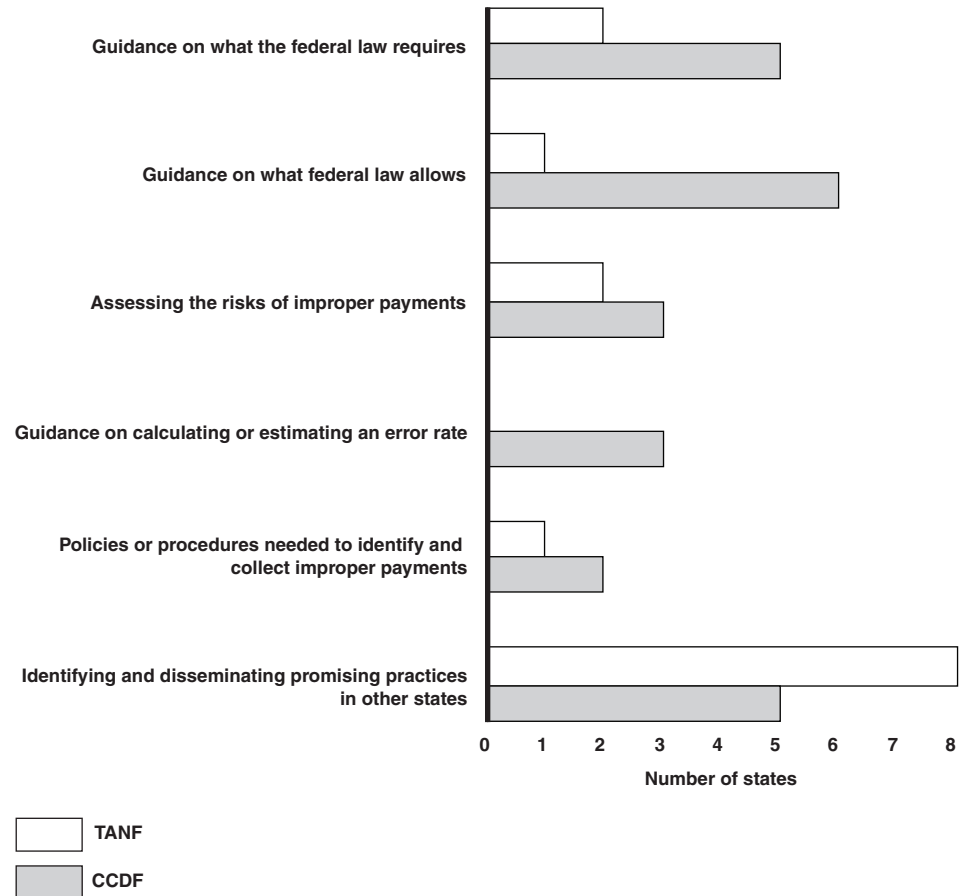
Notes: Based on surveys of state TANF and CCDF program administrators in 11 states. For the CCDF program, one state did not respond to this question.

³⁶ HHS reported that it provides guidance and technical assistance to the states on matters that affect the appropriateness of TANF expenditures such as income requirements for TANF eligibility.

Several states said they would like additional assistance from HHS in managing improper payments. We also asked states if they would like assistance from a variety of national organizations, recognizing that other organizations play an important role in advising states on how to operate their TANF and CCDF programs. TANF officials most frequently indicated they would like assistance from the National Council of State Human Services Administrators (NCSHS) and the United Council on Welfare Fraud (UCOWF), while the CCDF officials primarily wanted assistance from the National Child Care Information Center (NCCIC).³⁷ Regarding assistance from HHS, most states indicated that they would like additional assistance identifying and disseminating promising practices for managing improper payments, as figure 8 illustrates. Additionally, most CCDF programs reported that they would like HHS to provide guidance on what the federal law requires and allows with respect to improper payments.

³⁷NCSHS represents state and local government, as well as territorial, public human service professionals and is associated with APHSA. UCOWF is an organization of investigators, administrators, prosecutors, eligibility workers, and claims writers from local, state, and federal agencies from the United States and Canada who fight fraud, waste, and abuse in social service programs. NCCIC, a project of HHS's Child Care Bureau, is a national clearinghouse and technical assistance center that links parents, providers, policymakers, researchers, and the public to early care and education information.

Figure 7: Types of Assistance Surveyed States Said They Would Like from HHS



Source: GAO.

Note: Based on surveys of state TANF and CCDF program administrators in 11 states.

The projects for TANF and CCDF should help improve HHS monitoring activities as well as assistance to states. If successfully implemented, the projects will begin to provide HHS with a baseline of information on the various controls that states have in place for managing improper payments and thus improve HHS's ability to determine if the TANF and CCDF programs are susceptible to significant improper payments. However, HHS projects do not provide mechanisms to gather information on state control activities on a recurring basis. The absence of such mechanisms hinders HHS's ability to adequately assess the risk of improper payments and assist states in managing improper payments in these multi-billion dollar programs on an ongoing basis.

Conclusions

The extent to which the TANF and CCDF programs are vulnerable to improper payments cannot be determined given the information currently available nationwide and in the 16 states we reviewed. Given the dollar magnitude of these programs—about \$34 billion in federal and state funds—and the nature of their activities, we know that potential risks exist. We also know—based on our review of the 16 states—that states have some prevention and detection tools in place and at least some understanding of the extent of program risks, although some unevenness exists among states and between the TANF and CCDF programs in these areas.

What is not known, however, is the extent to which states' internal control systems are sufficient to protect these programs against an unnecessarily high level of improper payments. While we acknowledge that states have a great deal of discretion in TANF and CCDF, HHS continues to have a fiduciary responsibility to ensure that states properly account for their use of federal funds and maintain adequate internal controls over the use of funds. In addition, it has requirements under the Improper Payments Act to assess the significance of risks for improper payments, which it cannot do with the information currently available. As a result, HHS needs mechanisms to gather information on state control activities on a recurring basis.

HHS may determine that it needs legislative action in obtaining information from states. HHS may also require a shift in resources or additional resources to implement its efforts. It is essential that HHS move ahead with and expand its actions to better understand the internal control systems that states have in place and the extent to which program payments may be at risk. It can also play an important role in exploring the usefulness of expanding data sharing systems like PARIS to state CCDF programs.

In the short term, program funds lost to fraud and abuse or used to support ineligible families mean other needy families cannot be helped. In the longer term, it means that federal resources may not be used as effectively and efficiently as possible to meet important federal goals. Insufficient attention to addressing improper payments can erode public confidence in and support for these programs. As HHS moves forward, attention must be paid to carefully balancing the flexibility allowed states under law and the need for accountability for federal funds.

Recommendations for Executive Action

To better assist states in managing improper payments in the TANF and CCDF programs and comply with the Improper Payments Act, we recommend that the Secretary of Health and Human Services direct the Assistant Secretary of ACF to take the following four actions:

- Develop mechanisms to gather information on a recurring basis from all states on their internal control systems for measuring and minimizing improper payments.
- Follow through on efforts to identify practices that states think are effective in minimizing improper payments and facilitate sharing of these with other states.
- Where appropriate, partner with states to assess the cost-effectiveness of selected practices.
- Explore the feasibility of expanding PARIS to include CCDF, in addition to TANF, including a study of the cost-effectiveness of such a plan.

In recommending these approaches, we recognize that HHS may determine that it needs legislative action to direct states to provide the information. We also recognize that these approaches may require a shift in resources or additional resources.

Agency Comments and Our Evaluation

ACF provided written comments on a draft of this report; these comments appear in appendix III. It also provided technical comments that we incorporated as appropriate. We also provided a draft of the report to the American Public Human Services Association, the professional organization of state welfare officials, which provided technical comments that we also incorporated as appropriate. In its comments, ACF said that the report provides HHS with new and useful information. It also expressed concerns about our recommendation for collecting information on state internal controls as it relates to the TANF program and said we did not address its ongoing initiatives.

Regarding CCDF, ACF said it welcomed our examination of improper payments in CCDF and added that our work complements its ongoing initiative to examine state efforts to address improper payments. While it did not specifically state that it agreed with our recommendations as they pertain to CCDF, it noted that its new efforts to examine child care

improper payments are still in the early stages and it is committed to considering a wide range of options for possible next steps. ACF also noted that our findings on states' views about the level and usefulness of ACF technical assistance related to improper payments may not reflect its recent and growing level of effort it provides states in this area. We generally spoke with and surveyed states between December 2003 and February 2004. As a result, the time period of our review would not cover ACF's most recent efforts.

Regarding TANF, ACF agreed that new and improved information from states would enable HHS to better help states address improper payments. It also stated, however, that it believed that the assessment of risk called for under the Improper Payments Act must be made within the statutory framework of the TANF program, which places constraints on ACF to regulate state TANF programs. Within this statutory framework, ACF thinks its plan for acquiring additional information and assessing risk is adequate. It also expressed concern that the draft report did not adequately portray the regulatory constraints, particularly in its summary sections. In the draft report, we clearly stated the regulatory restrictions and noted that HHS may need to pursue additional legislative authority to collect the information needed on state internal control systems to assess program risk levels. We have added more of this information to our summary sections.

We also recognize, and discuss in the draft report, that ACF has plans to ask states to provide voluntarily more information on their efforts to address improper payments in order to share that information with all states. We agree that this is an important effort; we found that states in our review often reported wanting more assistance from HHS on identifying promising practices in this area. However, ACF will need to expand upon this effort or pursue additional strategies to ensure it has information of sufficient detail to gain an understanding of states' internal control systems. Its current data collection strategy is not likely to lead to information of sufficient detail to adequately assess the risk of improper payments on a recurring basis.

In addition, ACF said the draft did not address the relevant initiatives it has undertaken or will undertake during fiscal years 2004 and 2005 and it provided information on these initiatives. We disagree. Our draft discussed all of the initiatives for the CCDF and TANF programs that ACF

noted in its comments. We did, however, enhance portions of the discussion based on information provided by ACF in its comment letter.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from its date. At that time, we will send copies of this report to the Secretary of Health and Human Services and others who are interested. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please contact Linda M. Calbom on (202) 512-9508 or Calboml@gao.gov or Cynthia M. Fagnoni on (202) 512-7215 or Fagnonic@gao.gov. Additional GAO contacts and acknowledgments are provided in appendix IV.



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Managing Director, Education, Workforce, and Income Security

Objectives, Scope, and Methodology

We designed our study to provide information on (1) what selected states have done to manage improper payments in the Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) programs, and (2) what the Department of Health and Human Services (HHS) has done to assess risk and assist states in managing improper payments in these programs. To obtain information about these objectives, we developed a data collection instrument for state TANF directors and a separate one for state CCDF administrators, conducted in-person interviews with state TANF and CCDF program officials and state fraud officials, conducted telephone interviews with state auditors, reviewed information from our prior work, and conducted work at the federal level. In addition, we interviewed or consulted officials with professional associations including the American Public Human Services Association and the United Council on Welfare Fraud. We provided a draft of this report to APHSA and HHS. HHS's comments are included in appendix III and technical comments from HHS and APHSA were incorporated as appropriate.

We conducted our work from April 2003 through May 2004 in accordance with generally accepted government auditing standards.

Information on Selected States

To obtain information for this report, we judgmentally selected 16 states that reflect variations in the following characteristics: geographic location, level of TANF and CCDF program expenditures, and size of population. As part of our analysis, we sent data collection instruments to 11 states: California, Colorado, Florida, Idaho, Kansas, Maryland, Michigan, New Mexico, New York, Ohio, and Pennsylvania. We also visited 5 other states: Georgia, Illinois, Texas, Virginia, and Washington. Table 9 provides information on the amount of TANF expenditures for the 16 states in our review and each state's TANF expenditure as a percentage of the U.S. total. The table also shows that together these states represent about 70 percent of total U.S. TANF expenditures.

Table 9: TANF Expenditures by State and as a Percentage of the U.S. Total, Fiscal Year 2002

State	Total TANF expenditures (dollars in millions)	State's TANF expenditures as a percentage of U.S. total
California	\$ 5,477.3	21.6
Colorado	233.2	0.9
Florida	992.5	3.9
Georgia	510.7	2.0
Idaho	39.3	0.2
Illinois	971.2	3.8
Kansas	137.1	0.5
Maryland	427.7	1.7
Michigan	1,266.8	5.0
New Mexico	123.1	0.5
New York	3,851.5	15.2
Ohio	901.1	3.5
Pennsylvania	1,062.9	4.2
Texas	740.8	2.9
Virginia	264.4	1.0
Washington	627.9	2.5
Total for the states	\$17,628.1	69.40
Nationwide total	\$25,414.3	100

Source: GAO analysis of HHS data.

Note: Information from HHS's Administration for Children and Families. Numbers may not add to totals due to rounding.

Table 10 provides information on the number of families and children served by the TANF program and the percentage of TANF expenditures attributed to cash assistance payments for the 16 states in our review.

Table 10: Families Receiving TANF Monthly Cash Assistance and Percentage of Expenditures Spent on Cash Assistance for Fiscal Year 2002 and the Amount of Cash Assistance Benefits in January 2003 (in the 16 States)

State	Average monthly number of TANF families receiving monthly cash assistance	Maximum monthly TANF benefits for three-person family	Percentage of TANF expenditures on cash assistance
California	462,328	\$ 679 ^a	48.4
Colorado	12,086	356	22.7
Florida	59,013	303	26.7
Georgia	53,678	280	22.4
Idaho	1,369	309	12.9
Illinois	48,091	396	16.0
Kansas	13,958	429	38.4
Maryland	27,132	473	54.4
Michigan	74,338	489 ^b	26.2
New Mexico	17,015	389	68.3
New York	170,430	577 ^c	39.1
Ohio	84,031	373	39.3
Pennsylvania	80,624	421	33.2
Texas	129,937	201	28.4
Virginia	30,051	389	41.6
Washington	54,188	546	49.6
Nationwide total	2,064,373		

Source: HHS and the Congressional Research Service.

Notes: Information for HHS's Administration for Children and Families and Gene Falk and Meredith Walters, "Cash Welfare Benefit Amounts," *Welfare Reform Briefing Book* (Washington, D.C.: Congressional Research Service, updated 2003). Numbers may not add to totals due to rounding.

^aCalifornia – (Region 1) benefits.

^bWashtenaw County benefits.

^cNew York City benefits.

Table 11 provides information on the amount of CCDF expenditures, average number of children served, and the state CCDF expenditure as a percentage of the U.S. total for the 16 states in our review. The table also shows that together these 16 states represent almost 60 percent of total U.S. CCDF expenditures.

Appendix I
Objectives, Scope, and Methodology

Table 11: CCDF Expenditures by State and as a Percentage of the U.S. Total, from Fiscal Year 2002 Appropriation as Expended Through September 30, 2002

State	Total federal and state expenditures (dollars in millions)	State's CCDF expenditures as a percentage of U.S. total	Average monthly number of children receiving CCDF subsidies in fiscal year 2001^a (in thousands)
California	\$592.9	9.6	202.0
Colorado	63.1	1.0	24.5
Florida	287.8	4.7	80.5
Georgia	167.4	2.7	57.8
Idaho	31.0	0.5	9.7
Illinois	332.7	5.4	103.0
Kansas	73.7	1.2	14.9
Maryland	143.8	2.3	21.2
Michigan	122.8	2.0	50.1
New Mexico	61.8	1.0	22.8
New York ^b	277.7	4.5	180.8
Ohio	438.9	7.1	84.0
Pennsylvania	224.2	3.6	65.1
Texas	371.6	6.0	105.5
Virginia	50.8	0.8	15.9
Washington	282.5	4.6	51.2
Total for the states	\$3,522.7	57.0	1,089.0
Nationwide total	\$6,159.7	--	1,813.8

Source: HHS's Administration for Children and Families.

Note: These data represent states' expenditures from their fiscal year 2002 CCDF appropriations only and do not reflect expenditures made from previous years' appropriations. As a result, these data do not represent total expenditures for fiscal year 2002. The total amount of CCDF expenditures by state is not yet available for fiscal year 2002. Numbers may not add to totals due to rounding.

^aRepresents most recent data available.

^bData reported in New York for fiscal year 2002 are incomplete.

Table 12 provides information on the number of providers operating in the selected states we reviewed and the percentage of those providers operating without regulation.

Table 12: Number of Providers Receiving CCDF Subsidies for Selected States and Extent of Use of Providers Operating Legally without Regulation, Fiscal Year 2001

State	Total number of child care providers receiving subsidies	Percentage of children served who were in child care settings operating without regulation
California	91,982	27
Colorado	10,914	22
Florida	13,958	10
Georgia	13,566	7
Idaho	5,191	45
Illinois	98,659	53
Kansas	5,306	16
Maryland	12,694	25
Michigan	87,757	66
New Mexico	9,499	51
New York	53,553	49
Ohio	18,415	0
Pennsylvania	30,866	37
Texas	29,904	18
Virginia	0 ^a	13
Washington	38,451	32

Source: HHS's Administration for Children and Families.

Note: These data are the most recent available.

^aVirginia did not report the number of providers by setting type.

Some limitations exist in any methodology that gathers information about programs undergoing change, such as those included in this review. Although we did not collect information on the entire population of states and therefore cannot generalize our findings beyond the 16 states in our review, we have used the information for descriptive/illustrative purposes.

Survey of State TANF Directors and Child Care Administrators

To obtain information on what selected states have done to manage improper payments in the TANF and CCDF programs, we surveyed states using a data collection instrument (DCI) for each program in 11 states. These DCIs were identical in many respects to allow comparisons between the two programs; the instruments differed to the extent necessary to capture different conditions and factors in each program. We pretested the instruments in two states with the key TANF and CCDF officials

responsible for program administration and program integrity. In addition, we showed the instruments to and received input from Administration for Children and Families (ACF) officials at HHS.

Separate data collection instruments were mailed to TANF directors and Child Care administrators in December 2003, and follow-up phone calls were made to state TANF and CCDF officials whose DCIs were not received by January 9, 2004. We addressed DCIs to each state TANF director and child care administrator and requested he or she to consult with other state officials who were most familiar with efforts taken to manage and identify improper payments to complete the DCI. We received responses from all 11 of the state TANF directors and 11 child care administrators, although each state did not respond to all questions. We did not independently verify the information obtained through the DCI, other than for specific dollar amounts for which we asked states to provide documentation. Data from the DCIs were double-keyed to ensure data entry accuracy and were independently verified. In addition, the information was analyzed using approved GAO statistical software (SAS). The DCIs included questions on an assessment of risk to decide the nature and extent of improper payments in the TANF and CCDF programs; other actions taken to prevent, identify, and reduce improper payments, including fraudulent payments in the TANF and CCDF programs; and assistance and guidance from HHS and other sources.

The practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, difficulties in how a particular question is interpreted, in the sources of information that are available to respondents, or in how the data are entered into a database or were analyzed can introduce unwanted variability into the survey results. We took steps in the development of the survey instrument, the data collection, and the data analysis to minimize these nonsampling errors. For example, a survey specialist designed the survey instrument in collaboration with GAO staff with subject matter expertise. Then, as stated earlier, it was pretested to ensure that the questions were relevant, clearly stated, and easy to comprehend. When the data were analyzed, a second, independent analyst checked all computer programs.

State Site Visits

To obtain information about each assignment objective and, in particular, an understanding of the steps states have taken to identify and address improper payments, we interviewed state officials in Georgia, Virginia, Illinois, Texas, and Washington. We met with state TANF, CCDF, and fraud officials in these states. The interviews were administered using an interview guide that included questions similar to those on the DCIs. To obtain additional perspectives on TANF and CCDF mechanisms to manage improper payments, we conducted observations at local offices in the following locations: Springfield, Illinois; Austin, Texas; and Tumwater, Washington. In addition, we interviewed state auditors in the 5 states we visited and we analyzed state single audit reports conducted under Office of Management and Budget's (OMB) Circular A-133 for 15 of the 16 states in our review.¹ We also reviewed documents provided by states that described their programs and internal control systems and that corroborated any data officials provided on the amounts of improper payments.

Review of Federal Role

To identify steps HHS has taken to assess risk and assist states in managing improper payments in the TANF and CCDF programs, we identified and reviewed policies and procedures that described HHS's oversight activities; observed key oversight activities at an HHS regional office; reviewed documents, plans, and strategies for identifying improper payments; and interviewed ACF finance and program officials. We also reviewed results of audits done under OMB's Circular No. A-133 and the Single Audit Act.

¹According to a Michigan audit division administrator, audits of the Michigan TANF and CCDF programs for 2001 and 2002 have not been completed. Michigan performs a separate single audit for each department rather than a state-wide single audit.

Comparison of Data-Sharing Sources in TANF and CCDF Programs Among Surveyed States

Data source	Number of states that report sharing with listed data source	
	TANF	CCDF
Income Eligibility Verification System	11	1
Other human services programs in agency/ state	9	5
State department of labor or employment security	11	3
State directory of new hires	8	0
State department of motor vehicles	10	1
Public Assistance Reporting Information System	5	0
Lottery agencies	6	0
Prisons and criminal justice agencies at state level	8	2
National Criminal Information Center	4	1
Local jails	5	1
Credit bureaus	4	1
Financial institutions	5	1
State tax intercepts	7	1
Immigration and Naturalization Service	8	2
K-12 school system	6	3
Community colleges	3	3
Other providers of services, education, and training	4	4
Child support	9	8
Social Security Administration (SSA) form W-2 (wage statements)	6	5
SSA Social Security number verification	11	2
SSA Supplemental Security Income data	11	6
SSA death information	7	2
State data (from other states) on length of TANF receipt	8	
State data (from other states) on potential concurrent TANF receipt	9	
State child care licensing data		9
Head Start agencies		2

Source: GAO.

Note: Based on surveys of state TANF and CCDF administrators in 11 states.

Comments from the Administration for Children and Families



DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
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JUN 10 2004

Ms. Linda Calbom
Director, Financial Management
and Assurance
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Calbom:

Thank you for the opportunity to review the U.S. General Accounting Office's draft report, "TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments," (GAO-04-723).

Should you have any questions regarding our comments, please contact Joan Ohl, Acting Director, Office of Family Assistance, at (202) 205-8347 or Moniquin Huggins, Director of Program Operations, Child Care Bureau, at (202) 690-8490.

Sincerely,

A handwritten signature in black ink, appearing to read "Wade F. Horn".

Wade F. Horn, Ph.D.
Assistant Secretary
for Children and Families

Enclosure

**COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES
ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT ENTITLED,
"TANF AND CHILD CARE PROGRAMS: HHS LACKS ADEQUATE
INFORMATION TO ASSESS RISK AND ASSIST STATES IN MANAGING
IMPROPER PAYMENTS," (GAO-04-723)**

General Comments

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the General Accounting Office's (GAO) draft report on what states and the Department of Health and Human Services (HHS) are doing to assess and manage improper payments in the Temporary Assistance for Needy Families (TANF) and the Child Care Development Fund (CCDF) programs. It is important to recognize that these are two separate programs with different authorizing statutes, purposes, rules, and eligibility criteria. Based on surveys in 11 states, with site visits in five states and discussions with HHS staff, the report provides information on activities to address requirements under the Improper Payments Act. The report also provides the Department with new and useful information.

GAO Recommendations

To better assist states in managing improper payments in the TANF and CCDF programs and comply with the Improper Payments Act, we recommend that the Secretary of Health and Human Services direct the Assistant Secretary of ACF to take the following four actions:

- Develop mechanisms to gather information on a recurring basis from all states on their internal control systems for measuring and minimizing improper payments.
- Follow through on efforts to identify practices that states think are effective in minimizing improper payments and facilitate sharing of these with other states.
- Where appropriate, partner with states to assess the cost-effectiveness of selected practices.
- Explore the feasibility of expanding the Public Assistance Reporting Information System (PARIS) to include CCDF, in addition to TANF, including a study of the cost-effectiveness of such a plan.

In recommending these approaches, we recognize that HHS may determine that it needs legislative action to direct states to provide the information. We also recognize that these approaches may require a shift in resources or additional resources.

Appendix III
Comments from the Administration for
Children and Families

ACF Comments

ACF is providing comments from the Administration on Children, Youth and Families' Child Care Bureau for the CCDF program and the Office of Family Assistance for the TANF program.

Child Care Bureau:

The Child Care Bureau (CCB) welcomes GAO's examination of improper payments in the child care subsidy program. GAO's work complements HHS's ongoing initiative to examine state efforts related to tracking, preventing, and detecting improper payments. As the GAO report points out, controlling erroneous payments is critical since every dollar diverted from its intended purpose is a dollar that cannot be used to provide child care services to eligible children and families. At the same time, ACF recognizes the need to help states address erroneous payments in a manner that is cost-effective and that allows effective service delivery to meet program objectives.

Some of the GAO findings, such as those assessing technical assistance provided by HHS, may not completely reflect the recent and growing level of effort that ACF provides in this area. Our new efforts to examine child care erroneous payments are still in the early stages and CCB is committed to considering a wide range of options for possible next steps. CCB is pleased with states' willingness and commitment to partner with us to ensure that the Federal and state child care resources are invested wisely.

Office of Family Assistance:

While new and improved information would enable the Department to better help states address improper payments, we believe the assessment of risk under the Improper Payments Act must be made within the statutory framework of each program. Within the statutory context of the TANF program, we think the Department's plan for acquiring additional information and assessing risk is adequate. Also, we do not think that the Highlights or Results in Brief sections of the report adequately portray the statutory dilemma and constraints that reduce the Department's ability to "gather information on state internal controls" as recommended by GAO.

In enacting the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Congress explicitly specified that the purpose was to increase the flexibility of states in implementing a program focused on work and self-sufficiency. The systematic program of quality control reviews, determination of erroneous or improper payments and focus on payment accuracy that had existed under the Aid to Families with Dependent Children program for a quarter of a century was eliminated with the creation of the TANF program. To ensure that states retained this flexibility, the statute limited the authority and oversight of the Federal Government. Federal staffing was reduced by 75 percent and data collection was limited to that required by law; no improper payments information is included in the data required.

Section 417 of the Social Security Act (the Act) specifies that: "No officer or employee of the Federal Government may regulate the conduct of States under this part or enforce any provision of this part, except to the extent expressly provided in this part" (Part A of the Act). Since the Improper Payments Act is not included in Part A of the Social Security Act, HHS cannot regulate how and what states do to address improper payments or collect additional information under the statute. GAO's report does not adequately portray the full significance of this statutory framework and the Department's challenge to gather information and partner with states to address improper payments.

The report does not address the initiatives that ACF has undertaken or will undertake during FYs 2004 and 2005 for the TANF program in support of the President's Management Agenda and the Improper Payments Information Act of 2002. The activities include: (1) solicitation of information on improper payment "best practices" in the states; (2) expansion of A-133 audits of TANF programs in several states; and, (3) enhancement of the Public Assistance Reporting Information System (PARIS). These activities are all intended to assist ACF and the states in their efforts to identify and reduce improper TANF payments without the need for a legislative change to the program.

A. Solicitation of State "Best Practices"

1. HHS/ACF will draft a letter to states soliciting their "best practices" for ensuring payments are proper and identifying and reducing improper payments under their TANF program. The letter will request that states describe how they define improper payments in their state; the process used in their state to identify such payments; and what actions are taken in the state to reduce or eliminate improper payments. The letter will be clear that submission is voluntary. We intend to establish a repository for the state submissions, which would be available to all states for viewing on an HHS/ACF website. This repository will also assist the states in evaluating and/or creating/enhancing their TANF program integrity system(s) so that improper payments in the TANF program can be reduced.

B. Expanded A-133 Audits of TANF Program

HHS/ACF proposes to conduct an improper payments "demonstration" project with selected states in order to determine the possible extent of improper payments in the TANF program. This would entail the states to undergo a more in-depth review of TANF expenditures in the A-133 audit process. Two states would be asked to volunteer to participate in the first year. First-year results would be evaluated by HHS/ACF and reported to OMB. Second-year initiatives will be decided based on year-one results.

C. PARIS

The Public Assistance Reporting Information System (PARIS) is a voluntary project for those states willing to share public assistance data among participating states to maintain program integrity and detect and deter improper payments. The PARIS project has been

Appendix III
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operational and matches have been performed every quarter since August 1999. Using the Social Security Number as the key, the match process compares payouts made by states on various benefit programs (such as TANF, Medicaid and Food Stamps) against various data bases. Each quarter participating states voluntarily choose to match against any or all three of the available sources of data: the Veterans Administration (VA) database; the Department of Defense (the Federal) database including civil service/military salary/retirement payments (active or retired); and the public assistance data from states participating in any particular quarter (the Interstate Match). This latter match determines if a client is collecting benefits in more than one state. The Defense Manpower Data Center (DMDC) searches the data for matches and forwards any hits to the appropriate state, where staff can verify the data and decide whether to reduce or cut off benefits. Federal operational costs for the match processes are borne by DMDC (e.g., free to participating states). Currently, 22 states have signed agreements and are eligible to participate in PARIS data matches.

At every opportunity, ACF has actively sought out state representatives to join PARIS. ACF continues to participate in many conferences to advance state awareness of the huge potential savings of state human services dollars with a minimal investment in time and funds and, until FY 2003, ACF has sponsored annual PARIS Conferences at no cost to the Federal government (except minimal Federal travel expenses). Currently, ACF staff participate as members of the PARIS Board of Directors.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

Elsbeth Grindstaff, Amanda Mackison, Kathryn Peterson, Cynthia Teddleton, and Kris Trueblood made major contributions to this report. Jerry Sandau provided technical assistance in analyzing data.

Related GAO Products

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